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Reinsurer Losses Related to Florida Specialists Continue to Climb Despite No Significant Storms

Rate increases propel premium growth, as most reinsurers diminish their exposures

Principal Takeaways

- Florida's personal property specialists show a significantly higher dependency on reinsurance than the industry average.
- Premiums assumed by U.S. (re)insurers from this group have grown roughly 66% the last three years, but losses have increased fourfold over the same period even without significant hurricane activity.
- Reinsurance recoverables and ceded premiums among this group were 5.7 times policyholder surplus level in 2021, compared with an industry average of only 0.5 times.

The Florida property insurance market has been under immense pressure and faces multiple challenges. The segment's performance has deteriorated due to the greater frequency of secondary perils (severe thunderstorms, hail), rising reinsurance costs, escalating litigation, and building codes that have been exploited by parties looking to profit. Insurers have been grappling with inadequate rates despite significant rate hikes, and many carriers have dropped customers. Four property insurers domiciled in Florida have been declared insolvent since late February, in addition to a Louisiana-based insurer that wrote policies in Florida.

Exhibit 1

Premium Ceded by Citizens Property & Casualty

Reinsurer	Domicile	Ceded Premium ($ millions)	%
Florida Hurricane Catastrophe Fund	Florida	199.8	43.9
Everglades Re II Ltd	Bermuda	72.7	16.0
Lloyd's Syndicate 2791	Great Britain	40.5	8.9
De Shaw Re Ltd	Bermuda	23.8	5.2
Markel Bermuda Ltd	Bermuda	22.7	5.0
Vantage risk Ltd	Bermuda	15.9	3.5
Munich Re	Delaware	9.3	2.0
Swiss Re Amer Corp.	New York	9.1	2.0
Other 35+ Reinsurers		61.9	13.6
Total		**455.7**	

Source: AM Best data and research

Amid the turmoil, the Florida Office of Insurance Regulation (OIR) announced on July 27 a plan to establish a temporary reinsurance arrangement through Citizens Property Insurance Corporation in the event of rating downgrades. The State's solution may allow insurers to meet an exception offered by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and ensures Floridians can maintain coverage during hurricane season. Both government entities require that property insurance policies for properties with mortgages they back must be written by an insurer meeting financial rating requirements. Fannie Mae and Freddie Mac each offer an exception to the financial rating requirements for an insurer that is covered by a reinsurer that assumes, by endorsement, 100% of the insurer's liability for any covered loss payable but unpaid by the insurer because of insolvency.

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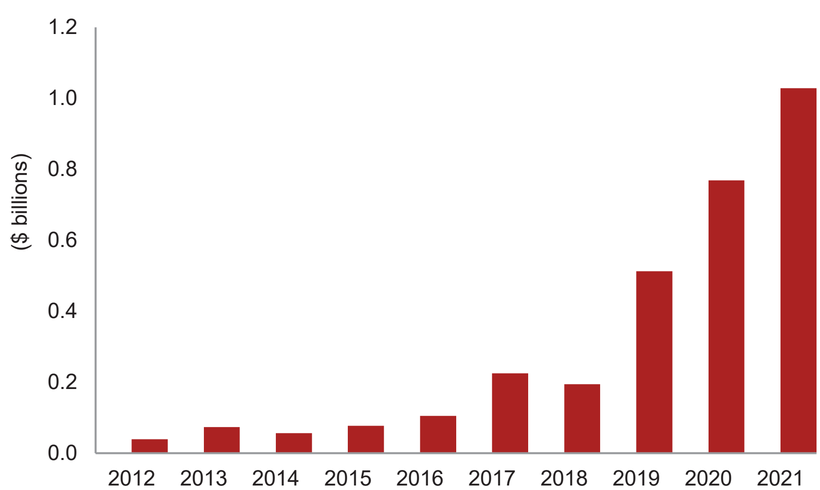
Exhibit 2
Unaffiliated Ceded Reinsurance Leverage*, 2017-2021
(Excluding Citizens Property Ins. Corp.)

* Defined as reinsurance recoverables and ceded premiums written to policyholder surplus, net of US affiliates
Source: AM Best data and research

Given the surge in Citizens' growth on a direct basis, and now its role as a backstop reinsurer, Citizens' reinsurers may also see additional risk. Eight reinsurers account for over 86% of premium ceded by Citizens, including the Florida Hurricane Catastrophe Fund, which accounts for nearly 44% (**Exhibit 1**). Everglades Re II Ltd., a special purpose vehicle, is used by Citizens to issue notes to sell to cat bond investors.

Exhibit 3
Losses Paid to Florida Specialist Personal Property Insurers by US Reinsurers



Source: AM Best data and research

Excluding Citizens, the aggregate ceded reinsurance leverage (reinsurance recoverables and ceded premiums written to policyholder surplus—a measure of reinsurance dependence) is significantly higher for a group of Florida specialist insurers than industry norms, and only two of these companies' ratios are below the national personal property composite ratio of 0.5x (**Exhibit 2**). These Florida personal property companies report significantly elevated dependency ratios, highlighting their sensitivity to reinsurance pricing. Pricing will continue to impact business plans and companies' ability to use reinsurance structures with adequate limits to protect against severe storms.

Insurers that AM Best has identified as Florida specialist insurers continue to cede a growing amount of premium to reinsurers, reaching over $7 billion in 2021. AM Best defines Florida personal property specialists as regional insurers domiciled in Florida with predominant exposures to Florida personal property insurance. Roughly 60% of the premium ceded by our Florida specialist insurer population is reinsured by US-domiciled companies, with more than half the remaining ceded to Bermuda. Additionally, the losses paid by US-domiciled reinsurers have increased fourfold over the last three years, despite fairly moderate hurricane seasons (**Exhibit 3**). Premium assumed by US (re) insurers has grown roughly 66% the last three years, and the loss ratio has still spiked—again, even without significant hurricane losses over that time, further suggesting that current prices are not adequate to cover the claims inflation and fraud. As such, reinsurers have been pulling back from the Florida property market or significantly raising prices. Excluding the Florida Hurricane Catastrophe Fund, nearly 65% of the reinsurers have a Best's Financial Strength Rating of "A-" or higher.

Because of the significant losses in Florida in recent years, some reinsurers have been evaluating their own aggregate exposures and capital allocation targets. After the Florida Hurricane Catastrophe Fund, Berkshire Hathaway captured the most premium from the FL specialist companies, roughly 8%, while ten reinsurers accounted for half the reinsurance (**Exhibit 4**). Despite increases in assumed premium in recent years, the exposure still accounts for less than 2% of assumed premium for Berkshire Hathaway. Other exposures to Florida property would likely heighten these ratios to some extent, but given that the vast majority of companies have exposures of less than 5% to these companies, total current Florida exposure is still likely manageable for reinsurers. Still, reinsurers are likely to remain selective in the risks they reinsure, placing further burdens on the Florida homeowners market.

Exhibit 4

Premium Ceded to Reinsurers by Florida Specialist Personal Property Insurers

($ millions)

Reinsurer	% of Florida Specialist Market	2021	2019	2017
Florida Hurricane Catastrophe Fund	10.0	696.5	680.9	590.7
Berkshire Hathaway Inc.	8.3	577.8	143.3	66.3
Munich Reinsurance Company	6.4	447.0	553.0	362.0
Swiss Re Ltd	5.1	356.7	233.8	115.5
Everest Re Group, Ltd.	4.1	282.0	177.0	206.5
Allianz SE	3.4	236.7	157.1	197.3
HDI V.a.G.	3.3	232.2	99.7	51.2
Aeolus Re Ltd	2.7	190.9	131.9	108.6
RenaissanceRe Holdings Ltd	2.5	171.2	156.7	146.8
Arch Capital Group Ltd.	2.2	153.0	80.3	23.1
Top 10	**48.1**	**3,343.9**	**2,413.6**	**1,868.0**

Source: AM Best data and research

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