Florida Insurers Ride 2023 Tailwinds While Bracing for 2024

After several years of significant catastrophe (Cat) losses exacerbated by a hyper litigious environment, many Florida homeowner insurers entered 2023 with weakened balance sheets. The 2023 hurricane season closed with above-average storm activity overall, although landfalls were fairly limited compared to prior years, which mitigated claim frequency and overall losses. Aided by favorable tailwinds of significant, groundbreaking legislative reform and a relatively benign hurricane season, KBRA-rated Florida homeowners carriers generally benefited from significantly higher policy pricing which generated underwriting gains and contributed to modest surplus growth. However, sharply higher reinsurance costs dampened profitability for primary carriers. KBRA will closely monitor industry developments, reinsurance trends, and hurricane activity through the next season as many market participants remain positioned for growth.

Key Takeaways

- The availability and affordability of reinsurance continues to pose a challenge to carriers who have become more creative in finding solutions to complete their programs.
- The legislative reforms implemented at the end of 2022 have helped to reverse the prior deterioration in the capital positions of Florida homeowner insurers, largely due to significant declines in litigated claims and loss cost trends.
- The relatively benign 2023 hurricane season benefited insurers; however, early indications for 2024 suggest the potential for increased frequency and severity of hurricane activity, which could expose insurers to greater erosion of financial strength.

Greater Reliance on Reinsurance

Given their capital structures and level of undiversified premium writings from a Cat-exposed geographic area, domestic Florida insurers, who predominantly underwrite homeowners' business, are heavily reliant on Cat reinsurance programs to manage their insured risk and align appropriate amounts of total insurable value (TIV) relative to surplus and capital resources. Overall, the Florida insurance market has been challenging during the past six years with many named hurricanes as well as elevated frequency and severity of other severe convective storms which, along with the litigious claims environment and unfavorable trends in loss costs, have adversely impacted balance sheets and capital positions of many insurers. As reinsurance programs are placed annually, pricing and capacity are concerns and subject to volatility, particularly as financial terms can significantly impact underwriting profits. While premiums to cover the reinsurance programs are paid upfront, rate increases to offset rising reinsurance costs at the primary carriers are earned over time.

The commercial reinsurance market has hardened, given the elevated frequency of weather events as well as a claims and loss expense environment which was lacking stability. In addition, Florida insurers are exposed to capacity constraints and significant increases in pricing as they place their catastrophe programs. As a result of sustained inflationary pressures and rising global events, rate increases may persist across the next 24 months, depending on the level and risk appetite of capacity providers. Reinsurance program structure is important, particularly for regional property writers exposed to significant Cat risk. As seen across the last two renewals (1/1 and 6/1), reinsurers generally elected to shift capacity further up in programs, namely above the Florida Hurricane Catastrophe Fund attachment point. This trend softened pricing among certain layers of the program. To fill the needs across the lower layers of the tower, certain insurers have been strategic about forming and/or utilizing captive reinsurers, which are collateralized, and allow for the most cost-effective deployment of risk transfer capital.

Prudent rate increases, which take time to earn through the in-force book, continue to drive growth in premium writings (see Figure 1). Most carriers have enhanced their claims practices as well as tightened underwriting guidelines (including increasing deductibles) which, in combination with fewer storms, has contributed to the improvement observed in the year-over-year loss ratio. In combination with risk selection, these factors have led to largely maintaining or slightly increasing capital positions across the last 12 months ending September 30, 2023, and remain the key drivers of profitability.

Figure 1: Average of KBRA-Rated Florida Homeowner Insurers			
Metrics ($000s, unless noted)	**YTD 9/30/23**	**YTD 9/30/22**	**% Change YTD 9/30/23 vs. YTD 9/30/22**
Direct Written Premiums	354,831	288,849	22.9%
Net Written Premiums	105,150	99,750	5.4%
Loss Ratio	49.9%	57.3%	-7.4%
Policyholder Surplus	79,126	72,929	8.5%

Note: Reflects population of KBRA-rated primary insurers who mainly write residential homeowner business in Florida.
Source: Statutory Statements

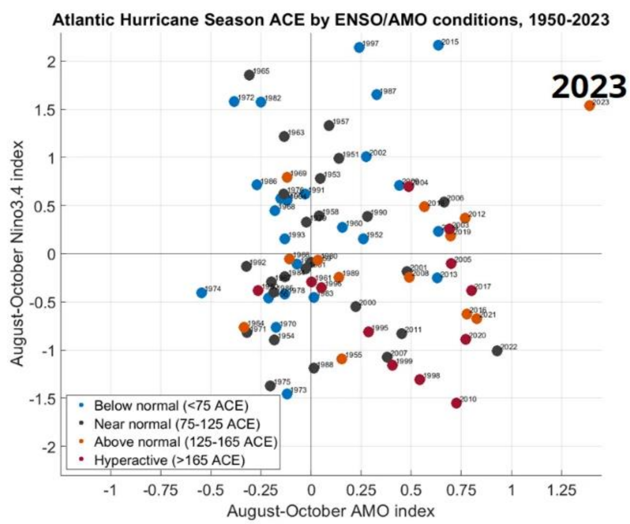
Legislative Reforms

Florida Senate Bill 2A was signed into law on December 16, 2022, with an aim to stabilize the homeowners insurance market within the state. Among other reforms, the legislation eliminates one-way attorney's fees, prohibits assignment of benefits (AOB), allows for mandatory binding arbitration clauses in policies, and significantly reduces the deadline for policyholders to report a claim following a loss. Taken together, the reforms were designed to level the legal playing field by reducing the exposure to protracted and frequent litigation for Florida homeowners insurance companies. While the full impact of the legislative changes are ongoing, initial indications suggest that primary carriers are beginning to see the benefits in lower legal defense expenses and sharp declines in the number of lawsuits.

2023 Hurricane Season

Despite El Nino conditions, which have historically reduced Atlantic hurricane risks, record-warm ocean waters helped drive an above-average 2023 Atlantic hurricane season. This past season produced 20 named storms, seven hurricanes, three major hurricanes, and an accumulated cyclone energy (ACE)[1] of 146 (see Figure 2). This compares to 30-year averages (1991-2020) of 14.4 named storms, 7.2 hurricanes, 3.2 major hurricanes and an ACE of 123. The 20 named storms in 2023 are tied with 1922 as the fourth highest on record, with the other three seasons—2020 (30 named storms), 2005 (28) and 2021 (21)—coming in the past two decades. In stark contrast to the last several seasons, only three storms made U.S. landfall, which kept overall losses manageable for the sector. Many of the storms formed in the eastern Atlantic, and due to the El Nino weather pattern, the U.S. was largely protected by a strong trough that redirected many of the storms away from the coastline. (see Figure 3)

Figure 2



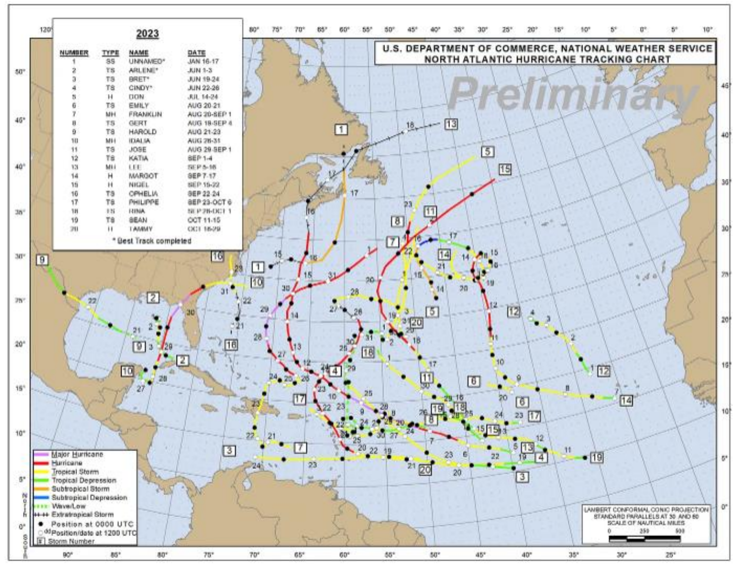
August-October average Atlantic sea surface temp anomalies (x-axis; left = cool, right = warm) and Pacific Nino3.4 region SST anomalies (y-axis; down = La Nina, up = El Nino) over 1950-2023, with dot color indicating Atlantic seasonal ACE.

Source: [Weather Tiger's 2023 Hurricane Season-in-Review, November 29, 2023]

[1] Accumulated cyclone energy (ACE) is a unit of measurement of the activity of a hurricane season. It is calculated for a storm by taking the storm's wind speed in knots, squaring it, dividing it by 10,000, then summing these values for each advisory. The sum of all these values for each storm is the ACE for the entire season.

The one exception was Hurricane Idalia, the first major hurricane to make landfall in Florida's Big Bend region. The storm hit eastern Taylor County as a Category 3 hurricane on August 30, 2023. The storm made landfall on one of the most sparsely populated areas in Florida, which helped to contain losses at much lower amounts than other recent storms. Idalia would have been a much bigger loss event had it struck a more densely populated area such as Tampa Bay. However, Idalia did cause extensive structural and agricultural damage in Big Bend and southern Georgia. Catastrophe modelers estimate private insurer losses for Idalia will run $2 billion-$5 billion, compared to the estimated $60 billion loss from Hurricane Ian.

Figure 3



NHC track map of all 20 named storms forming in 2023.

Source: [National Hurricane Center 2023 Atlantic Hurricane Season]

Conclusion

The significant tailwind combination of substantial Florida legislative insurance reforms enacted during the year, and a 2023 storm season characterized by a low number of U.S. landfalls, have made existing carriers well positioned to target moderate growth across the Florida homeowners' market, despite a general trend to keep policy counts relatively stable. In addition, new private capital entering the market, such as the several new reciprocal exchanges formed during 2023, will further fuel expansion through Citizens take-outs and other voluntary new business origination.

As a result of the relatively benign hurricane season, KBRA-rated Florida homeowner insurers reported significant growth in written premiums and lower loss ratios, which helped to strengthen capital positions observed over the last 12 months. Carriers continue to benefit from well-structured reinsurance programs as well as direct and indirect support from affiliated managing general agents, although surplus growth was somewhat muted by significant reinsurance premium increases. While seasonal hurricane forecasts typically are not widely published until the spring (March/April), the moderating effect of El Nino rarely lasts for two consecutive hurricane seasons and sea surface temperatures remain at all-time highs, so it is reasonable to expect a moderate likelihood for an above-average hurricane season in 2024.

Elevated hurricane frequency with potentially elevated landfall risk may challenge the generally improved capital positions of Florida personal property insurers, particularly new entrants with modest surplus bases, though carriers will benefit significantly from the recently implemented legislative reforms and higher premiums.

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