Commentary

Florida Property Insurance Market: Recovery Takes Hold, but Hurricane Risk Looms

Morningstar DBRS
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Key Highlights

- Florida's residential property insurance market has recovered significantly from the 2020–23 dislocation, with private insurers regaining market share and reliance on the state-backed insurer, Citizens, decreasing.
- The return of private insurer market capacity suggests growing confidence in the effectiveness of the state's insurance-related reforms and an improved operating environment.
- Benign hurricane activity in 2025 and a relatively quiet start to the 2026 season have supported insurer profitability and capital accumulation; however, a major hurricane remains a possibility and a test of the market's long-term resilience.

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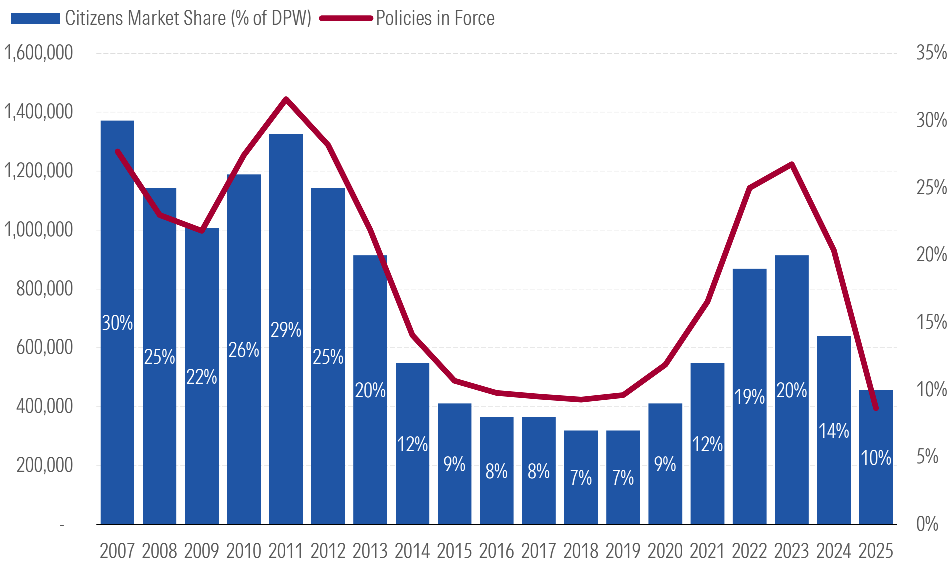
Overview

Florida's residential property insurance market has undergone a significant transformation after the severe disruption it experienced between 2020 and 2023. This period was marked by numerous insurer insolvencies, rising reinsurance costs, excessive litigation, and a contraction in private insurance market capacity. These pressures contributed to substantial premium increases and a sharp rise in policies-in-force (PIF) at the state-backed insurer of last resort, Citizens Property Insurance Corporation (Citizens). While Florida remains one of the most catastrophe-exposed insurance markets in the United States, market conditions have improved considerably over the past two years, supporting a more stable operating environment and better insurance availability. Perhaps the clearest indicator of the market's deterioration and subsequent recovery has been the change in Citizens' market position in Florida. As shown in Exhibit 1, Citizens' PIF grew to over 1.2 million in 2023 from approximately 543,000 in 2020. During those three years, the state-backed insurer's estimated share of Florida direct premiums written increased to nearly 20% from 7%, reflecting the significant migration of policies from private insurers to Citizens. However, over the last two years, this trend has reversed, with Citizens reporting a sharp decline in PIF and market share as underwriting conditions have improved, in part through favorable legislative reforms that have reduced insurance fraud in Florida and have facilitated the migration of business back to the private market.

Exhibit 1 Citizens' Florida Market Position (% of Total Direct Premiums Written) and Number of Policies in Force, 2007–25



Source: Florida Office of Insurance Regulation and Morningstar, Inc.

We believe the key question is whether Florida's private insurers are now positioned to sustainably absorb catastrophe risk while maintaining adequate capitalization, underwriting profitability, and the financial flexibility needed to withstand the next severe event. The market reforms leading to the re-entry of private carriers are credit positive from a revenue growth standpoint. However, the rapid return of private market capacity and the associated market dynamics also create a new set of risks that warrant monitoring.

Citizens' Market Share Reflects Shifting Private Market Capacity

Citizens' elevated market position is not historically unprecedented. Its market share has typically expanded following periods of market stress. After the severe Atlantic hurricane seasons of 2004 and 2005, private insurers began reducing their Florida exposure as catastrophe losses increased and underwriting results deteriorated. The increase in PIF, beginning in 2020, represented the second major period of private market dislocation in the last 20 years.

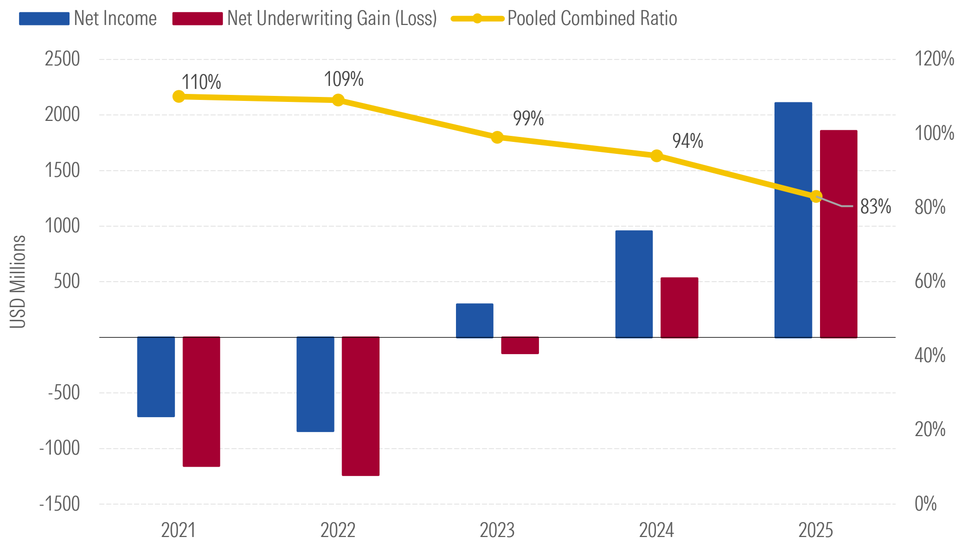
As Exhibit 1 shows, Citizens experienced significant PIF growth between 2020 and 2023 as numerous insurers became insolvent, while others reduced underwriting capacity or withdrew from the Florida market. During this period, 11 Florida-domiciled property insurers became insolvent and were subsequently placed into receivership. These insolvencies stemmed from rising reinsurance costs, sustained underwriting losses, elevated litigation and claims-related expenses, and significant catastrophe losses, which collectively weakened insurers' capital positions and financial stability.

Beginning in 2024, however, market conditions improved sufficiently to support a material transfer of policies back into the private market. Multiple existing carriers expanded their underwriting operations. Meanwhile, 20 new property insurers entered the Florida market, increasing competition, expanding private-market capacity, and accelerating Citizens' depopulation. Private insurers' willingness to assume Florida insurance risks shows greater confidence in market sustainability and future underwriting profitability. From a credit perspective, a healthier balance between Citizens and private insurers reduces market concentration risk, increases insurance availability, and reflects a more sustainable and competitive insurance ecosystem.

Factors Leading to Improved Underwriting Results

The market's recovery has been supported by substantial premium rate increases implemented after several years of weak underwriting results and significant earnings volatility. As shown in Exhibit 2, underwriting and total operating performance deteriorated materially in 2020, 2021, and 2022, with domestic residential property insurers reporting combined ratios of 116%, 110%, and 109%, respectively. In response, Florida homeowners insurance premium rates increased by approximately 50% between 2020 and 2025, as insurers sought to restore profitability and address the elevated loss costs. Over the last two years, insurers have shown strong profitability, with cumulative net income improving to approximately $955 million in 2024 and reaching a decade-high of $2.1 billion in 2025. Earnings were supported by robust underwriting performance, reflected in an 83% combined ratio in 2025, which generated approximately $1.86 billion in underwriting profit for the segment.

Exhibit 2 Florida Domestic Residential Property Insurer Results (Excluding Citizens), 2021–25



Source: Florida Office of Insurance Regulation and Morningstar, Inc.

Although higher premiums have strengthened insurer earnings and supported the return of private market capacity, affordability remains a growing concern for residents across the state. Over the longer term, the market's sustainability will depend heavily on the industry's ability to generate adequate returns while maintaining coverage that remains accessible and reasonably affordable for Florida residents.

In addition to higher premium rates, recent legislative reforms, including SB 2-A and HB 837, have also contributed to a more favorable operating environment for private insurers by helping reduce claims-related costs. Before these reforms, excessive litigation and claims-related legal costs put significant pressure on insurer profitability by driving up loss severity and loss-adjustment expenses. To address these challenges, Florida lawmakers eliminated one-way attorney fees in most property insurance disputes, further restricted assignment-of-benefits agreements, and reformed bad faith litigation standards. Collectively, these measures improved the predictability of claim costs, reduced litigation, and created a more favorable operating environment for insurers.

Finally, reinsurance market conditions have improved materially from the stressed environment experienced during the height of the Florida market disruption. Although reinsurance costs remain elevated relative to historical norms, pricing has stabilized, and capacity has increased. Improved conditions have strengthened insurers' ability to manage catastrophe exposure, while also supporting the expansion of private-market capacity and the transfer of policies from Citizens. Given Florida's significant hurricane exposure, continued access to affordable and readily available reinsurance will remain critical to the market's long-term stability and financial strength.

The 2026 Hurricane Season: An Important Test

While market conditions have stabilized, Florida remains one of the most catastrophe-exposed property insurance markets in the country, and the remainder of the 2026 hurricane season will be an important test of recent market improvements. With this year’s hurricane season now entering its peak months, activity has remained relatively subdued to date. This follows 2025, which marked the first year in the previous decade without a hurricane making landfall in the United States. Looking ahead, the National Oceanic and Atmospheric Administration's (NOAA) August outlook predicts a 75% probability of a below-normal Atlantic hurricane season, compared with 20% for a near-normal season and 5% for an above-normal season.

Below-average hurricane activity is expected because of anticipated El Niño conditions, which typically suppress tropical cyclone development in the Atlantic basin. This occurs because El Niño increases wind shear across the basin, making it more difficult for tropical storms to form and limiting the ability of existing storms to strengthen.

On the surface, the favorable outlook for the hurricane season supports the potential for another profitable year for insurers in the state and continued capital accumulation. However, this should not be interpreted as a forecast for Florida landfall risk. Even a below-normal Atlantic hurricane season can produce significant insured loss if a major hurricane makes landfall in a densely populated and highly exposed area. As recently as 2024, Hurricanes Debby, Helene, and Milton produced approximately $8.3 billion in combined insured losses. Unlike Hurricane Ian in 2022, which caused approximately $22.2 billion in insured losses from a single event, the 2024 hurricanes were not broadly disruptive to the market.

We believe a major hurricane would provide an important stress test of whether recent improvements in pricing, reinsurance protection, and capitalization are sustainable or have adequately absorbed such an event, without materially weakening Florida insurers' capital positions or financial flexibility. Ultimately, private-market insurers' ability to withstand such an event will be a key indicator of the durability of the market's ongoing recovery.

Note:
All figures are in U.S. dollars unless otherwise noted.

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