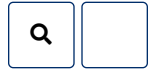


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Insurers heading for insolvency amid fraud and litigation

by Bloomberg 23 Mar 2022

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by Max Reyes

Insurers protecting Florida's homeowners are going under. And it's not the state's infamous storms dragging the firms down -- it's a deluge of lawsuits and fraud.

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More companies

follow the two insurers declared insolvent in recent weeks, Tampa, Florida-based Avatar Property & Casualty Insurance Co. and St. Johns Insurance Co., based in Orlando, Florida. And lawmakers failed to pass a bill that could offer a potential remedy before the state's legislative session wrapped up earlier this month.

Insurers, meanwhile, are opting not to renew certain policies, refraining from writing new business and increasing premiums. The pullback offers homeowners few choices: pay up, take the risk of forgoing coverage or throw in their lot with the state's insurer of last resort, which is already facing an influx of new customers as hurricane season looms.

"There are going to be other insolvencies," said Bruce Lucas, chief executive officer of Tampa-based insurance-technology firm Slide Insurance Holdings Inc. and a veteran of the state's underwriting industry. "There are just other companies that are too thinly capitalized."

The largest U.S. insurers have spent years shrinking their footprint in Florida to reduce their exposure to violent Atlantic hurricanes. As of the third quarter of last year, companies that primarily write policies in the state control more than three-quarters of the homeowners' insurance market, according to Kyle Ulrich, president of the Florida Association of Insurance Agents.

The relatively small size of those firms make them particularly vulnerable to litigation and scams that state legislation has so far failed to stem.

More than 76% of all U.S. homeowners' lawsuits against insurance companies in 2019 were opened in Florida, even though less than 8.2% of all homeowners claims nationwide were made there that year, according to analysis published last year by the state's Office of Insurance Regulation.

That litigation has helped push struggling insurers to the brink. And things have gotten worse for the firms as reinsurers, wary of shouldering legal costs, reduce their exposure to the state. State officials moved to declare Avatar insolvent earlier this month, a week after St. Johns suffered the same fate. (About \$400 million of St. Johns premiums was acquired by Slide.)

Those insolvencies followed two others last year, and more could be on the way. As of March 8, five other firms had yet to submit year-end data meant to provide a snapshot of their 2021 performance. St. Johns also didn't submit results before its insolvency.

The Office of Insurance Regulation is in contact with companies yet to file their year-end statements, spokeswoman Karen Roach said in an email. "As always, OIR closely and consistently monitors the financial condition and operational results of all insurers," she said.

The industry has also been awash with a deluge of claims -- including some scams -- relating to roofs. Industry advocates were eager to see lawmakers pass a bill that might offer relief by allowing more policies to pay the cash value of roofs involved in claims rather than cover fully replacing them, with the aim of stemming litigation linked to such claims. But the legislative session ended this month with the measure dying in the Florida House of Representatives.

Meanwhile, a 2021 law meant to keep contractors from roping homeowners into insurance scams has yet to deliver "any real results," said Logan McFaddin, vice president of state government relations with the American Property Casualty Insurance Association.

Highly litigious

The scams typically involve contractors asking insured homeowners to sign over their insurance-claim rights so they can score a "free" roof, paid for by their underwriter. One version of the scheme involves the homeowner signing an "advertising agreement" that includes promoting the contractor's business with a yard sign.

The lack of progress on insurance legislation led the state's Democratic lawmakers to criticize their Republican counterparts for prioritizing other laws, including a bill that limits instruction about gender identity and sexual orientation in kindergarten through third grade, dubbed the "Don't Say Gay" bill by critics.

Florida Senate President Wilton Simpson said there was a "possibility" of a special session focused on passing additional reforms being called in the coming months, but nothing concrete is in place. "The Senate had the formation of a pretty good bill this year, and we just didn't get it finished," Simpson said at a March 11 press briefing. Florida Governor Ron DeSantis said Monday he would "welcome" a special session without disclosing plans to call one.

In the meantime, the insurers left standing are increasing premiums or opting not to renew existing policies to avoid costly litigation. Analysis by the Insurance Information Institute indicates the average homeowners' insurance premium in the U.S. last year was \$1,398, up 4%. In Florida, however, the average premium surged 25% to \$2,600.

"The private insurance market in Florida is collapsing, and there's going to be no option for Florida homeowners other than Citizens or an out-of-state carrier," said Mark Friedlander, a spokesman for the institute, referring to state-backed insurer of last resort Citizens Property



'Don't eat'

Amy Tidd, who moved with her husband into their coastal Florida home near Cape Canaveral in 2002, said their homeowners' insurance premium increased almost 47% when the policy came up for renewal in December.

"We've never seen such large increases," said Tidd, who described herself as a senior and declined to give her age. Other people in the community can't afford such cost hikes, she said. "Older people are going bare. They are dropping insurance. It's either that or they don't eat."

One option for consumers who can't find traditional coverage is the surplus market, which takes on risks other insurers might shy away from, but those policies are often more expensive. Another option is to go with Citizens, the insurer of last resort. At the moment, the company has close to 800,000 policies in force and \$248 billion in exposure.

"Business is pouring in the doors at Citizens," Chief Executive Officer Barry Gilway said. "The divergence between Citizens' rate and the private-market rate is getting worse."

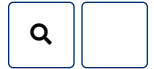
The potential for further insolvencies means the company will be more vulnerable if the state is struck by a severe storm or other natural disaster.

"Citizens is the only backstop," said Kevin Comerer, legislative director for American Integrity Insurance Co. of Florida. "You're playing Russian roulette as we head into hurricane season."

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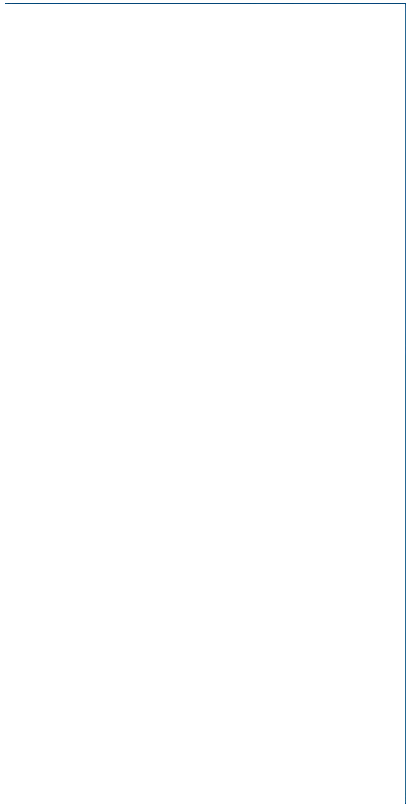
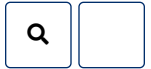


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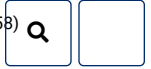
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