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AP Photo/Wilfredo Lee



Briefing: Florida's Property Insurance Market

Florida
TaxWatch

Fort Myers: New building codes prove effective as modern structures stand firm amidst Hurricane Ian's damage.

INTRODUCTION

The stability of Florida’s property insurance market concerns all taxpayers. Expensive property insurance burdens the wallets of homeowners and can discourage businesses from setting up shop in Florida. Since 2019, premiums in Florida have increased by 42.5¹ percent. Florida’s property insurance market is fragile, susceptible to spikes in premiums and often reliant on state-sponsored insurance options. With the onset of the 2024 hurricane season, it is a good time to revisit Florida’s property insurance challenges.

Florida TaxWatch has a long history of analyzing and reporting on property insurance issues. In 2008, Chief Financial Officer Alex Sink requested Florida TaxWatch review the state’s potential risk exposure through the Florida Citizens Property Insurance Corporation (“Citizens”) and the Florida Catastrophe Fund (“CAT Fund”). The special report, in response to the Chief Financial Officer’s request, found that if a “100-year-storm” were to hit, both programs would incur deficits in the billions.

Reflective of its condition in 2008, Florida’s property insurance market is once again in dire straits. Excessive litigation and expensive hurricane damages drained the funds of private insurance companies, pushing many to declare insolvency or leave the state. Limited competition among insurance providers and continued financial risk—posed by Florida’s propensity for more frequent and more severe hurricanes and increasing

reinsurance rates—encourage skyrocketing premiums for policyholders. Citizens, despite being established by the legislature to serve as an insurer of last resort, enrolls more than one million Floridians and comprises 17 percent of Florida’s property insurance market.²

High enrollment in Citizens is inherently alarming because it indicates the failure of the private market to meet the needs of Floridians, but it is also bad for Florida taxpayers at large. If Citizens exhausts its available funds to pay claims, it is required by law to levy assessments. Assessments can be levied on nearly every type of policyholder, even if the policyholder is covered in the private market. This includes, but is not limited to, homeowners, renters, automobile, and pet insurance policies.³

Addressing Florida’s property insurance issues cannot wait. In 2021, Florida TaxWatch released the report *“A Rising Tide Sinks All Homes.”* As discussed in the report, an estimated 70 percent of Florida residents live in a coastal county, and as sea levels rise, more homes will be at risk of chronic flood damage. Sixty-four thousand residential properties—amounting to \$26 billion in value and contributing \$350 million in annual property tax revenue—will be highly vulnerable to flooding by 2045. By 2100, the number of vulnerable properties will surpass one million. Increased risk will increase insurance premiums. Florida must find a way to establish long-term stability for the property insurance market; otherwise, the high cost of insurance will drive many Floridians out of the state.



¹ LendingTree, “State of Home Insurance in 2024: Rates Up 37.8% Cumulatively Since 2019,” May 2024.

² Citizens Property Insurance Corporation, Florida Residential Property Market Share, December 2023.

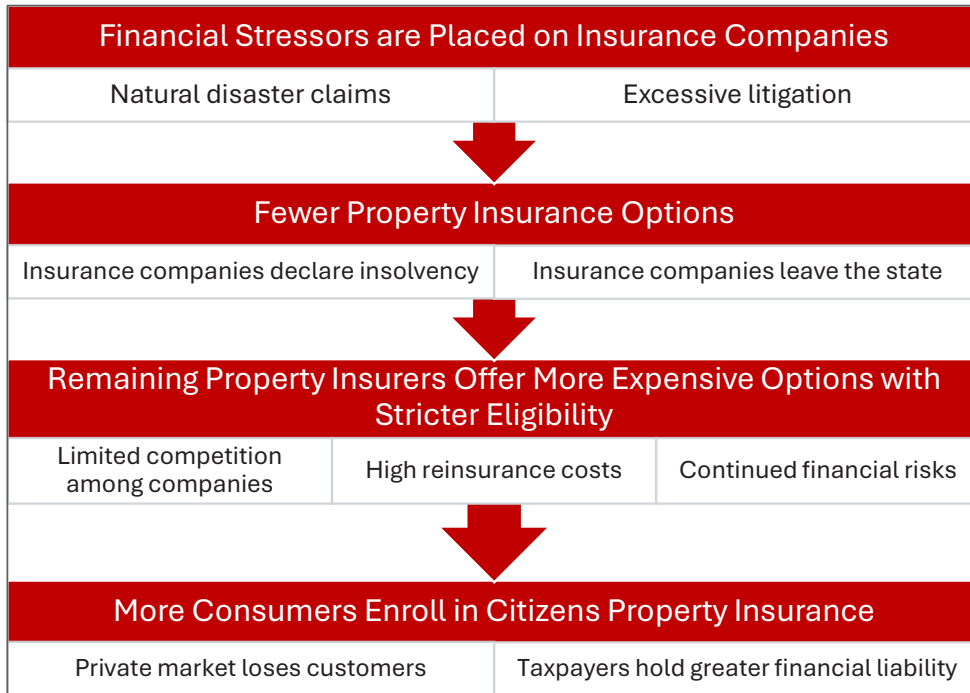
³ Citizens Property Insurance Corporation, “Insurance 101,” retrieved from <https://www.citizensfla.com/assessments#:~:text=Unlike%20a%20private%20insurance%20company,policyholders%2C%20assessments%20can%20be%20substantial,> accessed on February 5, 2024.

HOW DID WE GET HERE?

Financial stress, whether caused by hurricanes or excessive litigation, quickly causes the property insurance market to spiral (Figure 1). If the cost of claims is too high, insurance companies may be pushed out of the market, forced to declare insolvency or leave the state to preserve profit. The remaining property insurance companies face little competition, high reinsurance costs, and high risks, encouraging higher premiums and stricter eligibility for homeowners. When homeowners are unable to afford the higher premiums or fail to qualify for any insurance option, they must enroll with the insurer of last resort --- Citizens. As more homeowners enroll with Citizens, the amount of money in the private market diminishes—increasing its financial risks—and Florida taxpayers are more likely to pay assessments and higher policy premiums.

Figure 1.

Florida’s Property Insurance Market Struggles to Recover from Financial Stressors Placed on Insurance Companies.



Enrollment in Citizens can be used to track the stability of Florida’s property insurance market. At its worst, Citizens comprised 23 percent of the market (2007).⁴ At the time, Florida was reeling from the aftermath of natural disasters — over a 15-month period in 2004 and 2005, eight catastrophic storms caused \$35 billion worth of insured damage in Florida. To avoid large assessments, the Florida Legislature appropriated more than \$700 million to bail out Citizens in 2006.

Subsequent reforms helped reduce enrollment with Citizens. Citizens’ share of the property insurance market consistently dropped from 2011 through 2019, comprising less than ten percent of the total property insurance market from 2014 to 2021. At its best, Citizens was responsible for no more than four percent of the state’s total property insurance market (2018 and 2019). This recovery of the property insurance market, however, did not last.

Throughout the decade from 2011-2020, fraud quietly destabilized the property insurance market by wasting the funds of insurance companies on legal fees. The most harmful form of fraud took advantage of “Assignment of Benefits” (AOB) forms, which grant contractors the right to file insurance claims on behalf of property owners. Acting in bad faith, some contractors used this right to file a claim for an amount greater than what was warranted by the condition of the property. If the insurance company investigated and refused to pay such claims, contractors could file a suit. In such a case, insurance companies are left with two expensive options: fight the claim in court or settle. To avoid the risk of paying more money, insurance companies frequently chose the latter.

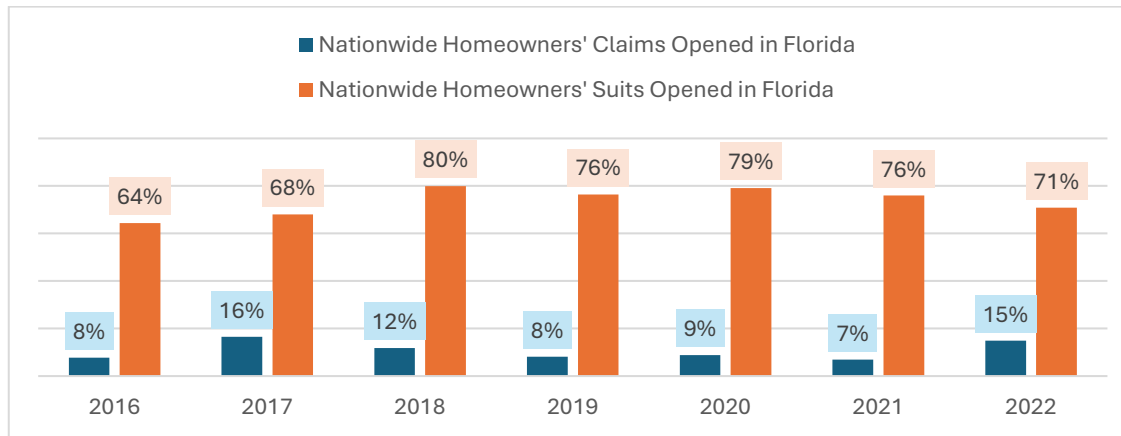
Florida has the greatest share of litigated insurance claims nationwide. As shown in Figure 2, in 2022, Floridians filed 15 percent of the property insurance claims and more than 70 percent of property insurance lawsuits. In 2021 alone, Florida property and casualty insurers faced 100,000 lawsuits, claiming \$7.8 billion in damage.⁵ Confronted with the high costs of excessive litigation and hurricane damage, many insurance companies restricted policy eligibility, limited activity in the state or stopped activity altogether, or declared insolvency (Figure 3). As a result, policyholders experienced high premium rate increases, and many policyholders were dropped from plans—leading to reliance on the state-sponsored Citizens (Figure 4).

⁴ Citizens Property Insurance Corporation, Florida Residential Property Market Share, December 2023.

⁵ American Bar Association, “Florida Passes Law to Encourage Arbitration Property Insurance Claims,” retrieved from <https://www.americanbar.org/groups/litigation/resources/newsletters/alternative-dispute-resolution/florida-passes-law-encourage-arbitration-property-insurance-claims>, accessed on June 12, 2024.

Figure 2.

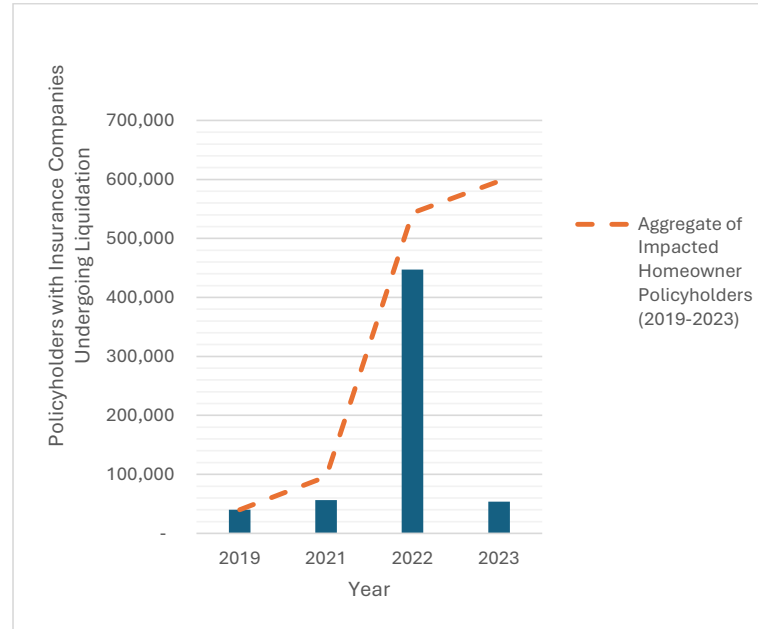
Florida's National Share of Homeowner Suits is Disproportionate to its Share of Homeowner Claims.



Source: Florida Office of Insurance Regulation, Property Insurance Stability Report, January 2024.

Figure 3.

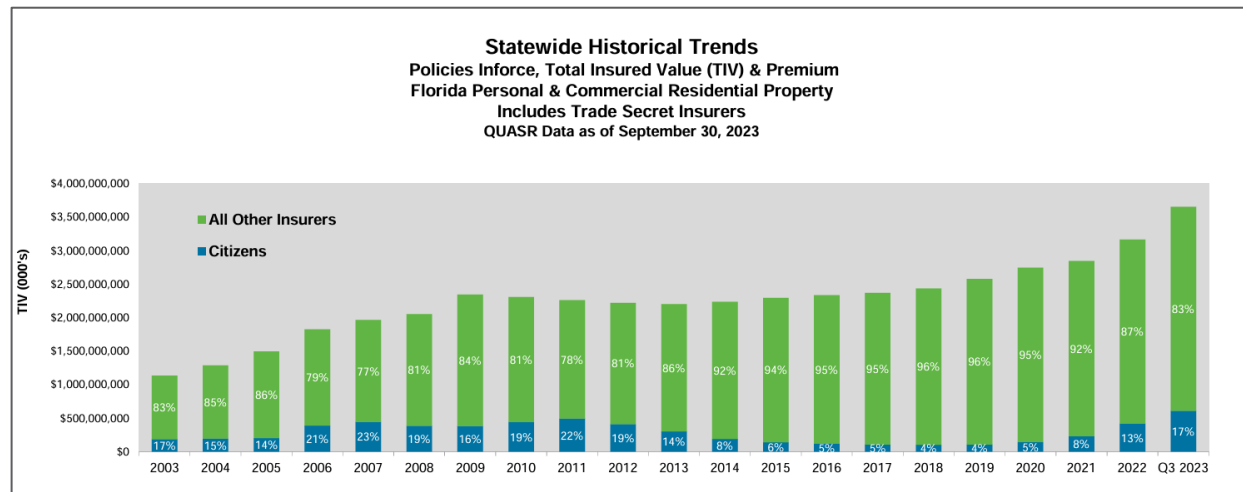
Between 2019 and 2023, Ten Property Insurance Companies Declared Insolvency, Affecting an Aggregate of 600,000 Florida Homeowner Policies.



Source: Florida Insurance Guaranty Association and Florida Department of Financial Services, Division of Rehabilitation and Liquidation.
Florida TaxWatch compiled data from insolvency reports to analyze cumulative impact.

Figure 4.

Citizens' Share of Florida's Personal and Commercial Residential Property Insurance Market Has Doubled Since 2021.



Source: Citizens Property Insurance Corporation, Florida Residential Property Market Share, December 2023.

ARE LEGISLATIVE REFORMS WORKING?

Over the past five years, Florida policymakers have worked to stabilize the state's property insurance market. Proposed legislation primarily focused on reducing insurance fraud, maintaining sufficient reinsurance funds, steadying the growth of premiums, and limiting reliance on Citizens. The following insurance reforms were implemented:

- **2019 Legislative Session:** SB 122 allowed property insurance policies that prohibit or restrict the assignment of benefits.
- **2021 Legislative Session:** SB 76 prohibited certain practices from contractors, including advertising consumers to contact a contractor for the purpose of making an insurance claim for roof damage and offering rewards for referrals, to help limit fraudulent schemes.
- **2022 Special Session (May):** SB 4-D provided funding for reinsurance relief, provided grant funding for homeowners seeking to make their properties more resistant to the damages of hurricanes, and increased protections for policyholders with roofs less than 15 years old, among other changes.

- **2022 Special Session (December):** SB 2-D and SB 2-A prohibited the assignment of benefits for policies issued on or after January 1, 2023; raised the threshold for making "bad faith" claims against property insurers; and adjusted the calculation of attorney fees to disincentivize frivolous claims. The Legislature established the Florida Optional Reinsurance Assistance Program to help insurance companies afford reinsurance without increasing policyholders' premiums. Additionally, the legislation addressed the strain on Citizens, requiring policyholders to accept a renewal or take-out offer from insurance companies if the premium is within 20 percent of the policyholder's premium with Citizens.
- **2023 Legislative Session:** SB 236 limits the application of one-way attorney fee provisions for insurance cases and provides that a contingency fee multiplier for an attorney fee is only appropriate in rare cases.
- **2024 Legislative Session:** HB 1503 allows regulators to approve takeouts by surplus lines companies, out-of-state companies that typically take on riskier, more expensive properties and receive less regulatory oversight from the Office of Insurance Regulation.⁶

⁶ This list is not exhaustive.

Reducing Insurance Fraud

The litigious legal environment, paired with more frequent and more severe hurricanes, hampers insurers' ability to stay solvent, let alone to make a profit. From 2013 through 2022, homeowner insurers averaged an underwriting loss of 4.3 percent.⁷ Within this timeframe, insurers experienced the greatest underwriting loss (72.6 percent) in 2022, as the state reeled from the devastation caused by Hurricane Ian.⁸

Throughout 2023, following the prohibition of AOB for policies issued coming into effect (January 1, 2023) the number of "intentions to litigate" decreased. At its peak (March 2023), 8,345 intentions were filed. In November 2023, only 4,064 were filed.⁹ In 2023, the money spent on legal defense and cost containment, as a percent of premium, was 3.1 percent, which is the smallest ratio since 2019.¹⁰ Compared to the national average (1.2 percent), however, Florida's legal costs are still high.¹¹

Maintaining Reinsurance Funds

Reinsurance is the "insurance for insurers," supporting their ability to pay claims during especially trying disasters. Reinsurance is intended to help insurance companies to cover the losses from abnormally destructive hurricanes. For example, the rating agency Demotech expects insurers to have the capacity to cover the losses from a 1-in-130-year hurricane and from two 1-in-100-year hurricanes within a year.

In recent years, reinsurance costs have grown due to extensive damage caused by powerful storms, such as Hurricane Michael (2018) and Hurricane Ian (2022). Hurricane Ian is the third costliest storm in the country's history. The resulting claims required reinsurers to charge higher rates. When reinsurance is expensive, insurance companies increase policyholders' premiums to cover the cost. In 2023, the risk adjusted cost of the reinsurance coverage increased by 27 percent, which is significantly smaller than the 50 percent increase that was anticipated by insurers.¹²

⁷ Loss is presented as a percentage of direct premiums earned. "Homeowner insurers" refers to insurance companies offering multiperil homeowner insurance.

⁸ National Association of Insurance Commissioners, 2024.

⁹ Florida Office of Insurance Regulation, Property Insurance Stability Report, January 2024.

¹⁰ S&P Global, "Fla. Property insurers post income turnaround in 2023," March 19, 2024.

¹¹ Ibid.

¹² Florida Office of Insurance Regulation, Property Insurance Stability Report, January 2024.

¹³ Florida Hurricane Catastrophe Fund, 2024 Ratemaking Formula Report, March 2024.

¹⁴ National Association of Insurance Commissioners, State Insurance Regulation: Key Facts and Market Trends Florida, 2022.

¹⁵ Florida Office of Insurance Regulation, Property Insurance Stability Report, January 2024.

¹⁶ Ibid.

¹⁷ Florida Office of Insurance Regulation, OIR Provides Update on Florida's Strengthening Property Insurance Market, May 2024.

In addition to the private market, Florida residential property insurers are required to obtain reinsurance from the Florida Hurricane Catastrophe Fund (CAT Fund). The CAT Fund was created (1993) following the devastation of Hurricane Andrew - to increase the state's insurance capacity. For 2024-25, the CAT Fund approved a new reimbursement formula that is expected to decrease the overall rate by 7.38 percent and provide insurance companies with the same level of coverage.¹³

In 2022, new legislation required Florida insurers to participate in the Reinsurance to Assist Policyholders (RAP) Program. The RAP program provides a non-recurring \$2 billion in coverage to aid insurers' losses from hurricane claims. It comes at no cost to insurers, and it is intended to encourage insurers to reduce policyholders' premiums.

Steadying the Growth of Premium Rates

Compared to other states, Florida has the largest homeowner premium rates. In 2022, Florida comprised 10.80 percent of all premium costs nationwide.¹⁴ In September 2023, the average premiums charged for homeowners ranged from \$1,824 in Sumter County to \$8,162 in Monroe County.¹⁵ Condominium owners were charged from \$621 in Suwannee County to \$2,269 in Palm Beach County.¹⁶



Rate filings for 2024 show a slight trend downward for the first time in years, indicating stabilization of the property insurance market.

- Florida Office of Insurance Regulation¹⁸

A reduction in rates is dependent on the profit-making ability of the insurance companies. Lowering reinsurance costs and limiting financial risks (i.e., home hardening) can help reduce rates, but the effects of recent legislation will take time to trickle into premium pricing. Since the implementation of the reforms in 2022 and 2023, eight new companies have joined Florida’s property insurance market, ten companies filed a zero percent increase, and ten companies filed for rate decreases, expected to take effect in 2024.¹⁸

Still, at the start of 2024, three property insurance companies—collectively insuring more than 135,000 homeowner policies—filed for rate increases and participated in a public rate hearing.¹⁹ Citizens’s board approved a 14 percent rate increase, and if approved by the Florida Office of Insurance Regulation, will amount to a greater cost burden on property owners who are already out of options.²⁰

Limiting Reliance on Citizens

Citizens’ share of the property insurance market is still relatively high. As of December 31, 2023, Citizens comprised 16 percent of the total personal residential property share, enrolling 1.2 million policyholders and amounting to 13 percent of total insured value. Citizens’ market share doubled since 2020.²¹

Even though the number of policies continues to grow each year, efforts to depopulate Citizens are improving. Citizens Depopulation Program successfully transitioned 223,307 policyholders to private insurance companies in 2023. For comparison, between 2016-2022, a total of 176,682 policyholders were moved to private insurance companies.²²

For homeowner policies alone, Citizens managed to take out 36 percent of policies in 2023, taken as a percentage of policies in 2022 (Table 1). In the private market, the cancellation and nonrenewal of homeowner policies is experiencing a slight downward trend (Figure 5), which should limit the number of policyholders that turn to Citizens.

Table 1.

Despite Recent Improvements in Depopulation Efforts, Citizens Policy Counts for Homeowner Policies and Condo Policies are High, Compared to Counts in 2020.

Year	Takeout of Homeowner Policies (HO-3 and HO-8)	Total Homeowner Policies with Citizens (December)	Takeout of Homeowner Policies as a Percent of Prior Year's Total Policies	Takeout of Condo Policies (HO-6)	Total Condo Policies with Citizens (December)	Takeout of Condo Policies as a Percent of Prior Year's Total Policies
2024	104,652	-	17%	5,877	-	13%
2023	207,838	629,585	35%	37,427	46,843	74%
2022	16,001	592,210	5%	407	50,441	1%
2021	2,425	345,624	1%	389	33,652	1%
2020	2,181	205,066	1%	683	26,425	3%

Source: Citizens Property Insurance Corporation, Statistics and Business Overview.
Excludes wind-only policies. Calculations by Florida TaxWatch

18 Florida Executive Office of the Governor, Governor Ron DeSantis Brings More Tax Relief for Florida’s Families, May 7, 2024.

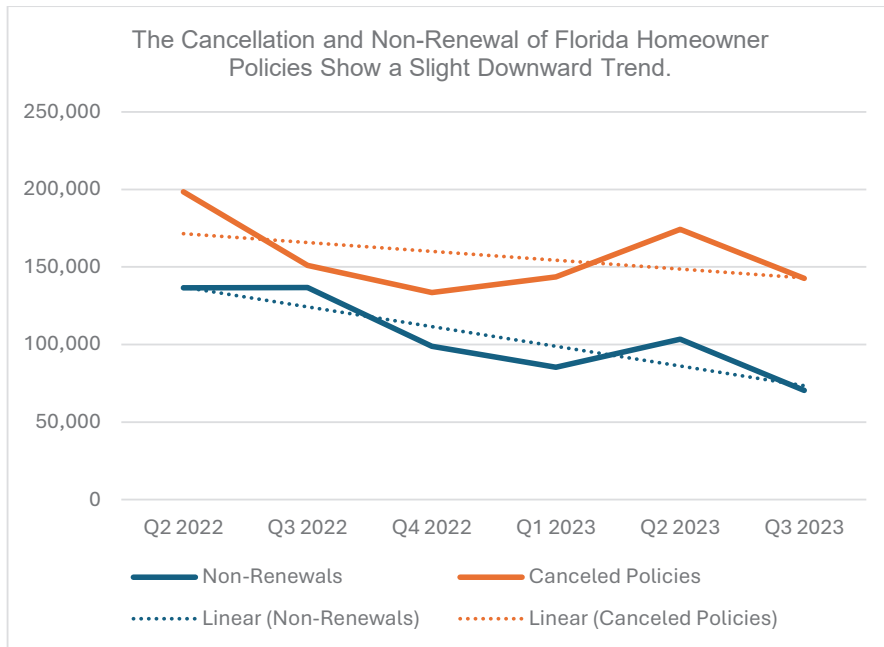
19 Florida Office of Insurance Regulation, “Public Hearings,” retrieved from https://www.florir.com/events/public-hearings-and-events?utm_medium=email&utm_source=govdelivery, accessed on May 15, 2024. Castle Key Indemnity Company, American Traditions Insurance Company, and Cypress Property and Casualty Insurance Company received public rate hearings. QUASR data from December 2023 was used to estimate the number of policyholders.

20 Insurance Journal, “Florida Citizens Board Votes to Raise Rates 14% But Litigation Costs Dropping,” June 19, 2024.

21 Citizens Property Insurance Corporation, Florida Residential Property Market Share, December 2023.

22 Citizens Property Insurance Corporation, “Citizens President/CEO Outlines Citizens’ Strength, Improving Market,” December 7, 2023.

Figure 5.



Source: Citizens Property Insurance Corporation, Florida Residential Property Market Share, December 2023.

Citizens' commercial lines also witnessed growth. In 2020, Citizens had 709 commercial residential rent multiperil policies and 170 commercial non-residential multiperil policies. In 2023, the two policy types grew by 342 percent and 953 percent, respectively. Reviewing the past five years, commercial residential rent multiperil policies only depopulated in 2024, with 268 policies assumed by a different insurer. Commercial non-residential rent multiperil policies have not been depopulated within the past five years.²³

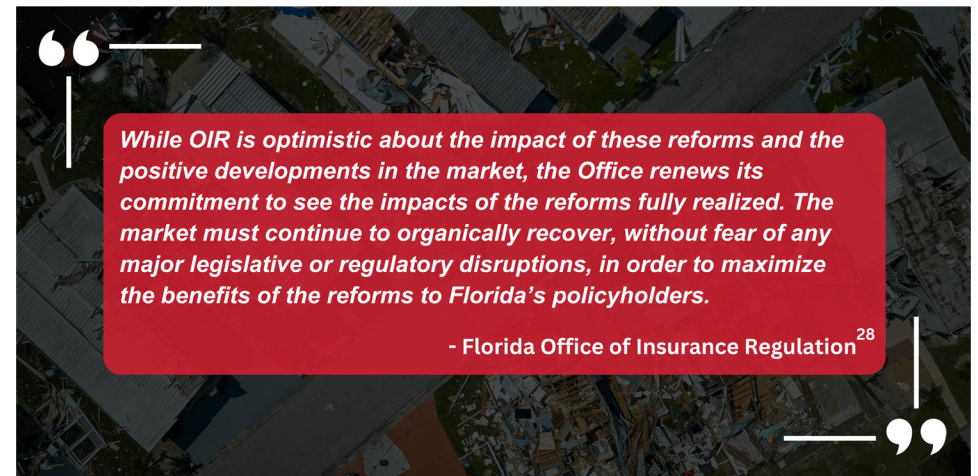
It is important to note that Florida is the only state in the U.S. that requires sales tax to be paid on the rental, lease, or license to use commercial property.²⁴ When increased property insurance premiums force landlords to increase their monthly rents, businesses leasing commercial property pay not only higher rents but sales tax on top of the increased rents. Florida legislators have been responsive to Florida TaxWatch's call to reduce and eventually rescind what is referred to as

the "business rent tax." Effective June 1, 2024, Florida's tax on the rental of commercial property was reduced from 4.5 percent to 2.0 percent.

Although the policy count is high, a recent press release from the Office of Insurance Regulation bodes confidence in Citizens' financial strength. In 2023, Citizens had a net income of \$746 million, compared to a loss of \$2.2 billion in the year prior.²⁵ To further reduce the potential for assessments, Citizens purchases reinsurance. In 2024, Citizens purchased \$5.5 billion in reinsurance for \$750 million, costing \$100 million more than the previous year.²⁶

LOOKING AHEAD: WHAT CAN BE DONE TO FURTHER IMPROVE THE PROPERTY INSURANCE MARKET?

Recent policy changes have facilitated modest improvements; however, understanding the impact of these legislative reforms will take time. When the state implemented property insurance reforms in 2011, Citizens still comprised more than ten percent of the property insurance market until 2014. As property insurance issues continue to be addressed, both the present and future impact of previous legislation should be considered.



²³ Citizens Property Insurance Corporation, Statistics and Business Overview.

²⁴ Florida TaxWatch, Business Rent Tax: Now is the Time to Begin Eliminating a Clear Competitive Disadvantage for Florida Businesses, April 2017.

²⁵ Florida Office of Insurance Regulation, OIR Issues Update on Florida's Property Insurance Market, retrieved from <https://foir.com/newsroom/archives/item-details/2024/04/03/oir-issues-update-on-florida's-property-insurance-market>

²⁶ Ibid.

The property insurance reforms implemented during the recent special legislative sessions primarily focused on increasing the financial stability of property insurance providers. The reforms will ultimately facilitate better rates in the long run; however, the current cost of property insurance is too burdensome for many Florida homeowners. In January 2024, the Associated Industries of Florida released the findings of its 2024 Statewide General Election Poll, and the results revealed that fixing the insurance crisis is statistically tied with inflation as the top issue important to Florida voters.²⁷

During the 2024 legislative session, the final tax package provided homestead property owners with a one-year exemption on taxes on residential property and flood insurance.²⁸ Based on Florida's average annual premium (\$6,366),²⁹ exempting homeowners from the 1.75 percent tax would save each homeowner about \$111. To make Florida's insurance rate competitive with the national average (\$2,153), the average annual premium needs to fall by more than \$4,000.³⁰ To keep Floridians from leaving the state, policymakers should consider how to offer greater relief in the present or facilitate quicker reductions in rates.

Policymakers can also help Floridians prepare for the next storm through

investments in home hardening. Home hardening helps prevent future damage, thereby limiting risk for insurers and, in turn, limiting the growth of premiums. All Florida homeowners were eligible to participate in the state's Home Hardening Initiative. The Home Hardening Initiative offers Floridians a sales tax exemption when purchasing impact-resistant doors, garage doors, and windows for commercial or noncommercial use. The exemption began in July 2022 and ended June 30, 2024. State policymakers should consider extending the program or establishing a longer program to encourage home hardening among all homeowners.

The state also operates a home hardening program for the homeowners in greatest need of financial assistance. Established in 2006, My Safe Florida Home (MSFH) provides matching grants to elderly and low-income residents for wind mitigation home improvement projects. The MSFH program has completed 92,000 home inspections and provided 22,000 matching grants, obligating more than \$200 million to homeowners. Of tracked homeowners, roughly half experienced premium discounts after completing their home hardening project.³¹ During the 2024 legislative session, Florida added \$200 million to reduce the waitlist for the MSFH program³² and implemented a pilot program to make MSFH grants accessible to owners of condominiums.³³

CONCLUSION

With more than two-in-three Floridians living in a coastal county, stabilizing Florida's property insurance market must be prioritized. Even though understanding the effects of previous legislation will take time—and currently show some promise—policymakers should remain vigilant to new opportunities to further enhance the resiliency of the property insurance market and address the critical need to reduce already exorbitant premiums. Without immediate relief, the state risks losing Floridians to more affordable states. As hurricane season is upon us, every Florida homeowner should consider hardening their homes in preparation for the next storm. In Florida, another storm is always guaranteed...one just waits.

²⁷ Associated Industries of Florida, Insurance and Inflation Remain Overwhelming Top Issues for Florida Voters; Republicans Outnumber Democrats by 700,000, January 2024.

²⁸ Florida Office of the Governor, Governor Ron DeSantis Brings More Tax Relief for Florida's Families, May 7, 2024.

²⁹ Bankrate, Homeowners insurance rates by state, retrieved from <https://www.bankrate.com/insurance/homeowners-insurance/states/>, accessed on May 24, 2024.

³⁰ Ibid.

³¹ The Florida Senate, Bill Analysis and Fiscal Impact Statement CS/SB 7028, 2024.

³² §215.5586, Section 2, Fla. Stat. (2024).

³³ §215.5587, Fla. Stat. (2024).

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