

Florida Homeowners Insurance Market Update

The population of Florida has grown more than 1.25 million residents between 2017-2022. During the same time period, five of the top ten [most costly hurricanes](#) hit the U.S. including 2022's Hurricane Ian, which caused [\\$41 to \\$70 billion of damage](#) with up to \$17 billion of uninsured flood damage, the majority of which was in Florida. With millions of Florida properties in high-risk areas, these families and homes are potential targets for severe weather-related insurance claims.

While hurricanes have become more frequent and severe in recent years, the threat of damage from catastrophic weather events is not the only thing that is driving a decrease in capacity and increased insurance costs in the state. Excessive and frivolous legislation has increased the cost of claims. [The Florida Office of Insurance regulation reports](#) that Florida accounts for only 9% of the nation's homeowners claims but 79% of homeowners insurance lawsuits. Over a 10-year period, 71% of the \$51 billion [paid by Florida insurers](#) went to attorneys' fees and public adjusters. In total, these parties have received more claims settlement money than the policyholders received. In both 2020 and 2021 the net underwriting losses for Florida's homeowners' insurers exceeded \$1 billion. As a result, insurance has become scarcer and more expensive.

With the continued potential for increased tropical storm activity and mounting cost of claims in the state, the Florida homeowners insurance market continues to be in what is known as a 'hard' market. When an insurance market turns hard, it means increases in price and decreases in product availability, both of which make it harder for homeowners to find the coverage they need.

The law of large numbers

A hard insurance market is a reminder that insurance is based on the law of large numbers. When losses increase by frequency, severity, or both, then the overall pool of premium must increase to offset those losses. The simple fact that a policyholder was not directly impacted by a recent storm or other loss event does not solely determine the impact to their premium or insurability. For example, in Florida, the year a property was built, its location, and its wind mitigation features are the biggest factors driving rates and insurability. So, while those with a higher risk profile will see the greatest impact, all homeowners in the state are still affected.

What Florida homeowners are experiencing

Many Florida homeowners have been receiving non-renewal notices, and the "lucky ones" are experiencing unprecedented rate increases. Insurance companies are looking to reduce the exposure for losses in the state and are passing on their increased costs to the consumer. Further, the ability to obtain new or replacement coverage has become

Policyholder considerations

Despite this challenging time of change in the insurance marketplace, there are some steps current homeowners can take to help maintain their insurability:

- Make payments on time to avoid a lapse in or complete loss of coverage. Ensure that both your broker and your insurer have your current billing address and contact information on file.
- Consult with your insurance advisor before submitting a claim to consider the potential impact on future insurability.
- Discuss any home renovation projects with your insurance advisor early in your planning stage before signing an agreement or beginning construction. Home renovations can change the risk profile of a property, which may trigger a mid-term cancellation or non-renewal.

increasingly difficult, with many insurers implementing extremely strict new business guidelines. For example, policies may cost significantly more to obtain, exclude wind coverage, or include an extremely high wind deductible. Rate and policy changes like this can be challenging to understand, so let's take a more detailed look at some of the contributing factors.

Reconstruction costs and additional living expenses

Many people are surprised to learn that the amount they should insure their home for is based on how much it would cost to rebuild the home, rather than the market value. In Florida, reconstruction costs increased over 12% from January 2022 to January 2023, largely because of supply chain issues with steel and lumber, inflation, and labor issues. Plus, after a hurricane, there is often a local shortage of materials and skilled labor, which impacts reconstruction costs and the time it takes to repair or rebuild a home. These factors all result in higher premiums for both new and renewal business.

In addition, if you are not able to reside in your home due to a covered loss, the cost to rent a similar home is often much higher in Florida than in many other states. The high demand for rental properties in season drives up the additional living expense portion of the loss resulting in higher claim payments.

Hurricane losses

Because of the severity of the loss potential, a separate deductible typically ranging from 2% to 15% of the insured value for the home applies to hurricane-related claims. Policyholders should be aware that the hurricane deductible in Florida is per calendar year rather than per incident. Thus, it is important to report all hurricane claims even if the loss is below the deductible, as there may be multiple storms during the year. Often the policy terms also include a condition that shutters or other hurricane protection must be in place during a named storm.

Flood coverage

The threat of damage caused by flooding also increases with hurricanes. [Storm surge](#) is a threat for properties near the coast, but inland properties can also face the risk of flooding due to considerable amounts of rainfall as they experienced in the aftermath of Hurricane Ian. Homeowners policies do not typically include [coverage for flood](#), and separate coverage should be secured before a pending storm as there is up to a 30-day waiting period for flood insurance.

Legislative landscape

Florida Governor Ron DeSantis signed a property insurance reform bill on December 16, 2022 to help stabilize the Florida property insurance market, increase competition, and strengthen consumer protections. The bill provides significant legal reforms to reduce litigation and prohibits the use of assignment of benefits for policies issued on or after January 1, 2023. The deadline for a policyholder to file a claim is reduced to one year from the date of loss. It also tightens the time for an insurance company to respond to a claim and make a determination of coverage. Among other things, the legislation will help insurers obtain reinsurance.

Policyholder considerations, continued

- Speak to your insurance advisor before turning your primary home into a secondary residence or rental property. A change in occupancy may be considered an increase in risk, which also can trigger a mid-term cancellation or non-renewal.
- If you haven't completed a comprehensive review of your personal insurance recently, now is a good time to schedule one with your insurance advisor.

Assignment of Benefits clause

Insurance companies in the state of Florida have also increased premiums due to fraud and higher claims payments related to the assignment of benefits (AOB) clause. This clause was established because unscrupulous contractors were submitting inflated claims to insurance companies and then filing lawsuits under a Florida law that guaranteed payment of their legal fees if they prevailed. The carrier would adjust the claim, offering a lower settlement to reflect true costs, only to be served with a lawsuit. In Florida, regulators, insurance companies, industry trade groups, and lawmakers continue to encourage policyholders to report claims directly to their broker or insurance company, so they don't unknowingly sign away their rights to a third party. It is always a good practice to thoroughly review and understand any contracts with repair companies, as signing an AOB may put the claim settlement at risk.

Buying a home in Florida

To avoid overpaying to be underinsured, it is important to have the most complete information available about a property. Having specific reports and documentation is vital to providing the full picture of a home's risk profile.

- One key determining factor is the year that a home was built, as the Florida Building Code (FBC) changed for most of the state on September 1, 2002. Homes built after this date usually meet updated guidelines and go through a less stringent review process.
- If a home has been renovated, it is important to ask for details about the extent of the renovation. In Florida, a home can be taken down to the studs but keep two original walls standing to maintain tax status of the property, so some insurance companies will agree to consider the year of the renovation as the year built of the home instead of looking at the original year it was built.
- If the home is built before 2006, ask for a wind mitigation inspection report. While a home built after the FBC change should have all these characteristics, some insurers are looking to confirm these standard requirements:
 - Roof covering (asphalt shingles, clay or concrete tiles, etc.) meets FBC or is FBC equivalent
 - Roof to wall attachment is a minimum of clips; single straps are better
 - Roof deck attachment is 8d 6x6 (8d is the length of the nail, 6x6 is a pattern of nailing that is closer together)
 - All windows and exterior doors have Class A-rated protection; most homes built after 2002 will have impact glass, but homes before 2002 can achieve this protection with the use of hurricane shutters
 - Garage doors rated to sustain impacts at a certain speed and not be compromised
- Buyers should ask for a 4-Point Inspection, which notes the age of the home's electrical panels, wiring, HVAC (Heating, Ventilation and Air Conditioning), plumbing, and roof.
- Insurance companies are also concerned about a roof that is more than 15 years old, even though certain roof covering materials have a useful life of 25 or 30 years.
- Buyers should also ask for an elevation certificate if the home is in a high-risk flood zone (Zone A or V). Most insurance companies need to confirm the home is positively elevated to be eligible for coverage. Homes built prior to 1970 might not be positively elevated and this will impact premium. Flood, wind, and hurricane protection program coverages are all important considerations, regardless of the flood zone of the property.

All these reports are in addition to the standard home inspection typically performed as part of the real estate transaction process. Some of this information may still be required even if the homeowner wants to self-insure for wind coverage, such as renovation information, a wind mitigation inspection report, a 4-Point Inspection, and an elevation certificate.

Additionally, when there is a mortgage, it is important for the buyer to confirm it will be insurable at a reasonable cost before making an offer or finalizing the closing. Just because a property is currently insured by the seller does not guarantee the home will continue to be insurable in current market conditions. Likewise, if you are planning to sell your home, a prospective buyer may want to make sure coverage can be obtained on the property before making an offer or closing.

Working with a broker

Clients faced with the challenges of a hard market often benefit from the expertise provided by a professional insurance advisor who works with multiple insurance companies and can provide counsel and advocacy. Whether you are buying a new home, looking for new coverage after a non-renewal, or considering changing insurers after a steep premium increase, Marsh McLennan Agency Private Client Services is happy to assist you in navigating your insurance options.

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