

Property Insurance in Florida

A Brief Overview

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April 16, 2012

When we think of property insurance in Florida here is what we think of:

A satellite image of a large hurricane, likely Hurricane Andrew, over the Gulf of Mexico. The hurricane's eye is visible in the center, surrounded by dense, swirling clouds. The text "Welcome to Florida" is written in a stylized, red, cursive font across the top of the image. The word "Welcome to" is smaller and in a simpler font, while "Florida" is much larger and more prominent. The background is a dark blue satellite image of the ocean and the hurricane's cloud structure.

Welcome to **Florida**

We are here



Unfortunately property insurance is global – here is what the property insurance

carriers think of:

Billion-Dollar Weather Disasters of 2011

Location	Dates	Event	Damage
Thailand	Jun 25 - Nov 30	Flood	\$45.0 billion
Australia	Jan - Feb	Flood	\$30.0 billion
U.S.	Apr 25 - Apr 28	"Super" Tornado Outbreak	\$10.2 billion
U.S./Mexico	Jan - Dec	Southern U.S. Drought	\$10+ billion
U.S.	May 21 - May 27	Joplin Tornado Outbreak	\$9.1 billion
U.S., Bahamas	Aug 25 - 28	Hurricane Irene	\$7.3 billion
China	Jun 1 - Jun 24	Flood	\$6.7 billion
Colombia	Apr - May	Flood	\$5.8 billion
China	Sep 1 - 22	Flood	\$4.2 billion
U.S.	Apr - Jun	Mississippi River flood	\$4.0 billion
U.S.	Oct 29 - 31	Northeast snowstorm	\$3.0 billion
U.S.	Apr 3 - 5	Tornadoes, severe thunderstorms	\$2.8 billion
China	Jan - May	Drought	\$2.7 billion
U.S.	Apr 14 - 16	Tornadoes, severe thunderstorms	\$2.5 billion
U.S.	Apr 8 - 11	Tornadoes, severe thunderstorms	\$2.2 billion
U.S.	Jan 31 - Feb 2	Groundhog's Day blizzard	\$2.0 billion
Pakistan	Aug 12 - Sep 30	Flood	\$2.0 billion
Australia	Feb 3	Tropical Cyclone Yasi	\$1.8 billion
Philippines, China	Sep 27 - 30	Typhoon Nesat	\$1.7 billion
U.S.	Jun 16 - 22	Tornadoes, severe thunderstorms	\$1.5 billion
Japan	Sep 21 - 22	Typhoon Roke	\$1.2 billion
Italy, France	Nov 3 - 7	Flood	\$1.2 billion
Brazil	Jan 11	Flash flood	\$1.2 billion
U.S.	Apr 19 - 21	Tornadoes, severe thunderstorms	\$1.2 billion
U.S.	Jul 10 - 14	Tornadoes, severe thunderstorms	\$1.2 billion
China	Jan 1 - 20	Winter weather	\$1.2 billion
U.S.	Aug 18 - 19	Tornadoes, severe thunderstorms	\$1.1 billion
Canada	Apr 14 - May 31	Flood	\$1.0 billion
U.S.	Sep 4 - 8	Tropical Storm Lee	\$1.0 billion
U.S.	May 15 - Jun 30	Missouri River flood	\$1.0 billion
U.S.	May 25 - Jul 5	Souris River flood	\$1.0 billion
Denmark	Jul 2 - 3	Flood	\$1.0 billion

Basics of Property Insurance in Florida:

- Two real levels of property insurance carriers:

Retail insurance companies that sell product to the public

Re-Insurance companies that sell to the Retail carriers

- Property rates in Florida are principally driven by the overall Re-Insurance Market – this is a global market .

- The Re-Insurance Markets include:

Domestic Carriers – (AIG/Chartis, Berkshire Hathaway, etc.)

London Carriers – (Lloyd's syndicates and others)

Bermuda Carriers – (ACE Bermuda, etc.)

CAT Bonds – (Various Hedge Funds and International Money Funds)

- Property Insurance Carriers will ultimately issue policies for a limited amount of property exposure, retain a portion of the risk and attempt to purchase re-insurance for all amounts over their risk appetite.

How Do Insurance Companies Estimate the Amount of Risk They Are Taking?

- Probable Maximum Loss – Carriers use computer models to determine the likely losses, typically using a 1 in 100 year event as a barometer (roughly a Category 3 Hurricane in Florida).

- Two models are the Industry Leaders:

RMS (Risk Management Solutions)

AIR CAT

- Re-Insurance carriers almost exclusively use RMS (Version 11) to determine the PML's and therefore to determine rate.
- Following Hurricane Ike RMS released Version 11 to update their storm forecasts. It reduces the reliance on historical data and instead shows:

The increased trend on frequency of large catastrophic events

The increase trend of the severity of these events

- Initial statements advised that Florida had already been effected by Version 10 and that Version 11 would have little impact.
- In reality most Florida portfolios under RMS 11 are seeing increases in their PML values by 50% or more.
- Same amount of property insured but estimated loss figures up 50% - any guess on the impact?

What does the future hold for Florida property insurance?

- There is no crystal ball – we are dependent on our own catastrophic losses as well as the global catastrophic losses.
- The impact of RMS 11 will have to be felt in pricing over the next 2 -4 years unless it is revised.
- The lack of Investment Income by property insurance carriers leaves very little room to absorb additional re-insurance costs.
- Short term outlook is for higher pricing – long term outlook (past 2 -3 years) almost impossible to predict.
- Best way to mitigate future costs for property insurance owners is to build wind resistive structures (Wind Rated) as these will always obtain the best pricing in the market and be less likely to produce a financial loss to the owner.

