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Litigated water claims, AOB to top Citizens 2017 challenges

MAITLAND, FL – Rising water claims and “out of control” litigation threaten the Citizens Property Insurance Corporation’s long-term financial stability and will stifle efforts by Citizens to offer premium breaks to policyholders in 2017, Citizens leaders stressed during a governing board meeting on Wednesday.

Barring significant changes, including possible legislative action on assignment of benefits, non-hurricane losses will continue to chip away at Citizens’ reserves and could result in policies returning to the state’s insurer of last resort as private insurers face similar challenges.

“Without significant reform, litigation, water claims and AOB pose a serious threat to the financial position of Citizens,” said Chris Gardner, Chairman of the Board of Governors. “This is not a sustainable situation.”

The percentage of nonweather related water claims – burst pipes, sudden dishwasher leaks, etc. – that head toward litigation has skyrocketed in recent years. Each litigated case raises the average claim cost by at least \$20,000. These costs must be passed on to Citizens policyholders.

8,097 new lawsuits were filed against Citizens between January and November 2016, a 30 percent increase from the same period in 2015. Meanwhile, Citizens’ policy count dropped by 26.3 percent between January 2015 and November 2016.

“While less than 15 percent of water-related claims resulted in litigation in 2011, nearly 50 percent did so in 2016,” said Barry Gilway, Citizens President, CEO and Executive Director. “The situation is really out of control.”

Contributing to this sharp increase is the fact that, in many cases, Citizens is made aware of a loss only after repairs are made or the policyholder has hired an attorney or a public adjuster to represent them.

Another factor is the use of assignment of benefits, in which policyholders who suffer a loss sign over policy rights to a third party, such as a contractor, who then has control of the claim and

deals directly with Citizens. On average, AOB claims are more expensive and more likely to lead to litigation. Under current conditions, contractors assume all the benefits afforded the policyholders but bear few of the responsibilities, such as cooperating with Citizens adjusters.

These losses are driving Citizens' 2017 budget request, which was approved by the Board on Wednesday. For 2017, Citizens has estimated net operating losses of \$100 million in its inland residential policy lines, with losses concentrated in Miami-Dade and Broward Counties, where the bulk of litigated and AOB claims originate.

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In 2002, the Florida Legislature created Citizens Property Insurance Corporation (Citizens), a not-for-profit alternative insurer, whose public purpose is to provide insurance to, and serve the needs of, property owners who cannot find coverage in the private insurance market.

