

Homeowners and Flood Insurance Update

Florida Realtors Convention

August 2023

The Homeowners Insurance Market has gone through an enormous amount of turmoil for the past several years due not only to the substantial payout of claims from Hurricanes Irma and Ian but also due to excessive lawsuits and fraudulent claims that have been made primarily for roof replacements.

Last summer Florida Realtors formed a Special Task Force to review the current overall situation with Homeowners Insurance and to make recommendations for significant change without which Florida was headed to only one solution Citizens Insurance for all. The Task Force recommended major changes to the Florida Insurance Laws and regulations to provide relief to Insurance Companies and also to balance the rights of Consumers to create a more level playing field.

The Florida Legislature concluded a special session in December to provide relief to Insurers and followed in the spring session with significant Consumer protections.

Here are the highlights of the recent legislative actions:

- *The One-Way Attorney Bill that was a major cost driver was repealed. reducing the excessive legal fees that were ballooning claim costs (71 cents of every \$1 of claims paid in 2022 were paid to Attorneys)*
- *Assignment of Benefits for Insurance Claims were prohibited as of 1/1/23 thus eliminating excessive third part costs and attorneys' fees*
- *Time to file a claim after a major event was reduced from 3 years to 1.*
- *Insurer's ability to cancel policies after hurricanes limited until repairs have been completed.*
- *Increased regulatory oversight by the Office of Insurance Regulation*

These significant legislative changes will clearly have an impact on lowering the eventual policy rates and will attract more companies and capital onto the Florida Homeowner's Market. However this will take one or two years to begin to take effect... somewhat like turning the Queen Mary slowly and without much change in the view!!

Clearly the "Elephant in the Room" is the Florida Insurance Company of last resort Citizens Property Insurance Corporation. Citizens was created by the Florida Legislature in August 2002 as a not-for-profit, tax-exempt,

government entity to provide property insurance to eligible Florida property owners unable to find insurance coverage in the private market. As of 2019 Citizens has a policy count of approximately 400,00 policies. After the combination of claims from the Irma and Ian Hurricanes and the exit of more than 40 Companies from writing new Homeowners Policies the Citizens policy count reached 1,345 million policies as of July 28,2023. The Citizens Rate structure because of the state regulations is limited to 10-12% rate increases which are substantially below the rates that are being charged by other admitted Insurance Carriers. Note that all Florida Insurance Companies have operated at a loss for at least the past 2-3 years, and many have become insolvent or have left the Florida Homeowners Market.

Included in their reforms enacted as part of the December 2022 legislation, the Legislature also added provisions designed to reduce the reliance of Florida Homeowners on Citizens Property Insurance. These provisions include:

- *Eliminating the discount for 2nd Homes and Investment Properties which will result in increases from 30% to %50 in future policy costs.*
- *Requiring Policy Holders to choose alternative HO policies when the quote from the Private Carrier is within 20% of the Citizens quote.*
- *Requiring new Policy holders to have Flood Insurance in place when renewing their Citizens Policies affecting more than 900,000 policies upon renewal in 2023-2024.*

These above changes were included in the Insurance Reforms enacted by the Legislature with the intent to reduce the Citizens Policy count rapidly and significantly over the near future years. Clearly the exposure to the Catastrophe Fund (aka the CAT Fund) with over 1.3 million policies could strain Citizens ability to pay all claims in the event of one or more Major Hurricanes.

While only 6-8 months have passed since these legislative actions, there is already good news in support of strengthening the Florida Homeowners Market. Citizens has reported that lawsuits are down 20% year over year after the 1st Quarter of 2023. Three new companies have requested to begin writing Homeowners policies in Florida and have been approved by the Insurance Commissioner. These new entrants have expressed interest in taking over 325,000 policies out of Citizens, a welcome development. Many of the major existing Carriers have begun writing new Homeowners policies as their old policies come up for renewal. Finally, re-insurance costs (those policies that ensure a Carrier can pay all of their claims) have come down

meaningfully now that litigation costs are coming under control as a result of the legislative reforms.

For those interested in more details about the current Florida Insurance Market, the Office of Insurance Regulation has published a Q&A which is linked to this Article.

Also at the Florida Realtors Convention a new Homeowners Insurance Handbook was released that was developed in conjunction with the NAR Insurance Committee and the Institute Information Institute. The link to the Booklet is also linked in this Article. This is a great piece to share with your customers to educate them on the importance of having adequate Homeowners coverage.

The future of the Florida Homeowners Market is indeed much brighter than it has been for many years. However, most experts believe that it will take one or two years or more for significant rate stabilization and even reductions to take place on a widespread scale.

While the focus of discussions at the Conference this year was on Homeowners Insurance, the importance of obtaining Flood Insurance coverage was emphasized. As many homeowners learned in the wake of Ian that flood coverage is critical when storm surges and rising water causes damage to their home. REALTORS® need to be aware that Flood Insurance rates can now be obtained very quickly for their customers under the new FEMA 2.0 rating system. Of equal importance, the Buyer can assume the Flood Insurance policy of the Seller when purchasing a home which can result in a significant savings over obtaining a new FEMA policy.

REALTORS® are strongly encouraged to work with their customers to assist them in better understanding the Florida Homeowner Insurance market. It is of utmost importance to obtain the cost of Homeowners and Flood Insurance prior to writing and submitting a Sales Contract. The cost of insurance is a significant cost of ownership. An educated Buyer needs to be aware of the impact of insurance costs before making a final purchase decision.