



# Florida Homeowners ROE Outlook

INCON 2019

# Submitted blurb...

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## Florida Homeowners ROE outlook

In February of 2019 Aon launched their first study evaluating the ROE outlook for homeowners carriers specifically in the state of Florida. In this session we'll consider and contrast the market strategies of the FL domestic specialists against the FL subsidiaries of the national carriers. The discussion will include benchmarks of profitability, focus on risk tolerance, and consider potential impacts of recent market forces including assignment-of-benefits legislation and the recent reinsurance renewals.

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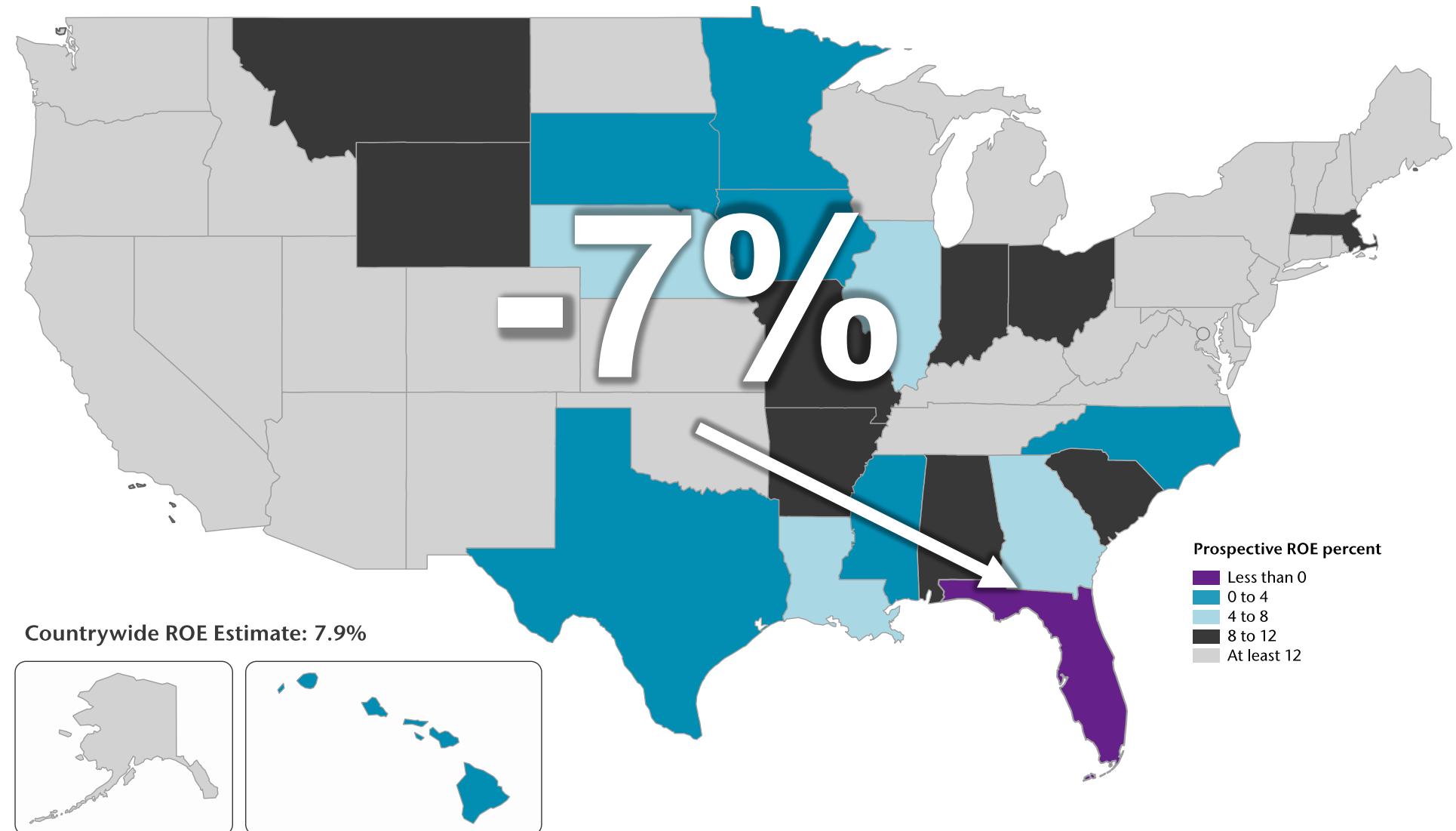
- 1 The ROE Of Florida Homeowners Business**
- 2 Does Anyone Believe Those ROEs?**
- 3 What's The Right Way To Evaluate Florida Homeowners?**
- 4 Risk Tolerance**
- 5 What If The Legislature Really Fixed AoB?**



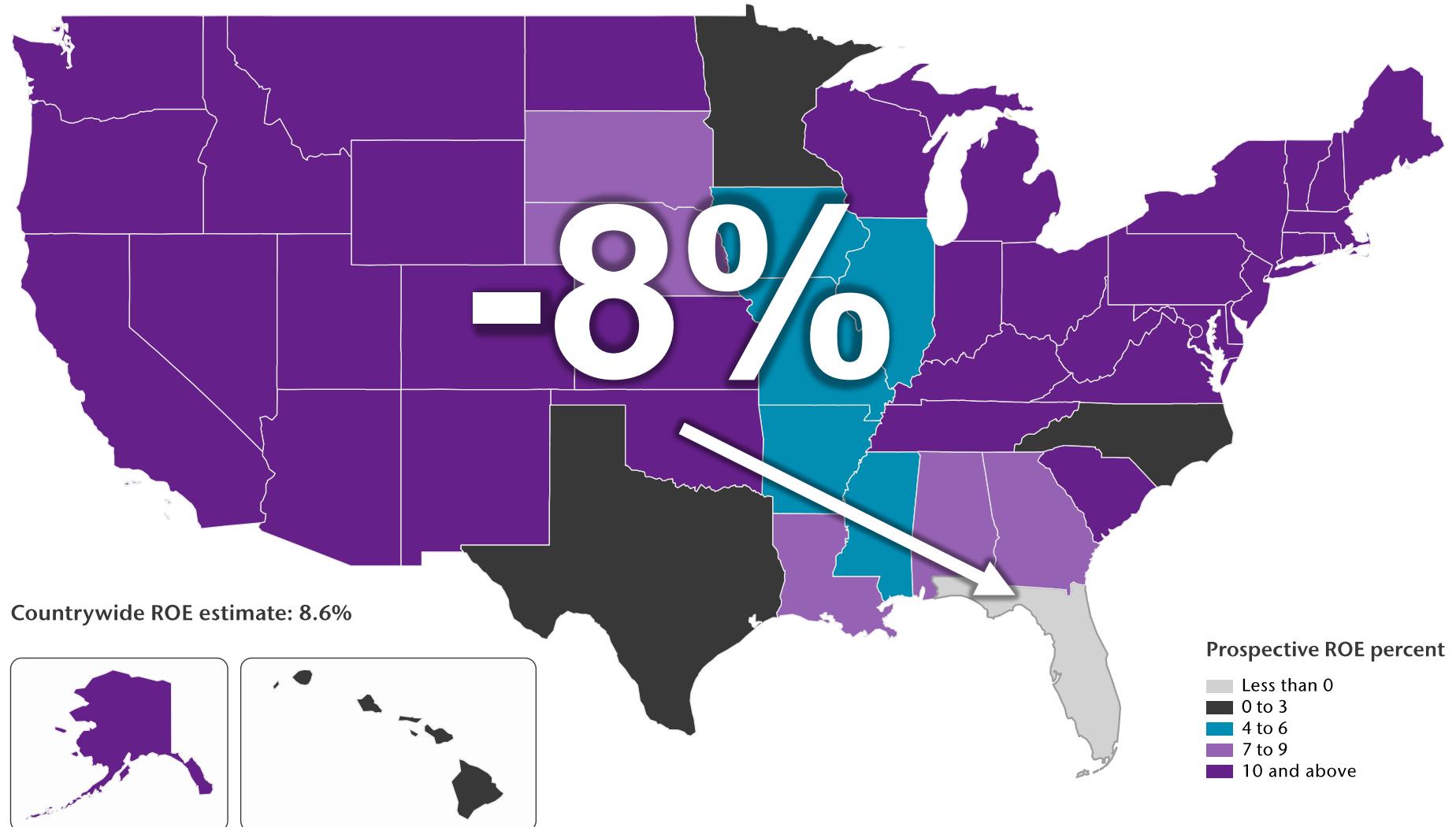
# The ROE Of Florida Homeowners Business

Section Divider Sub Title

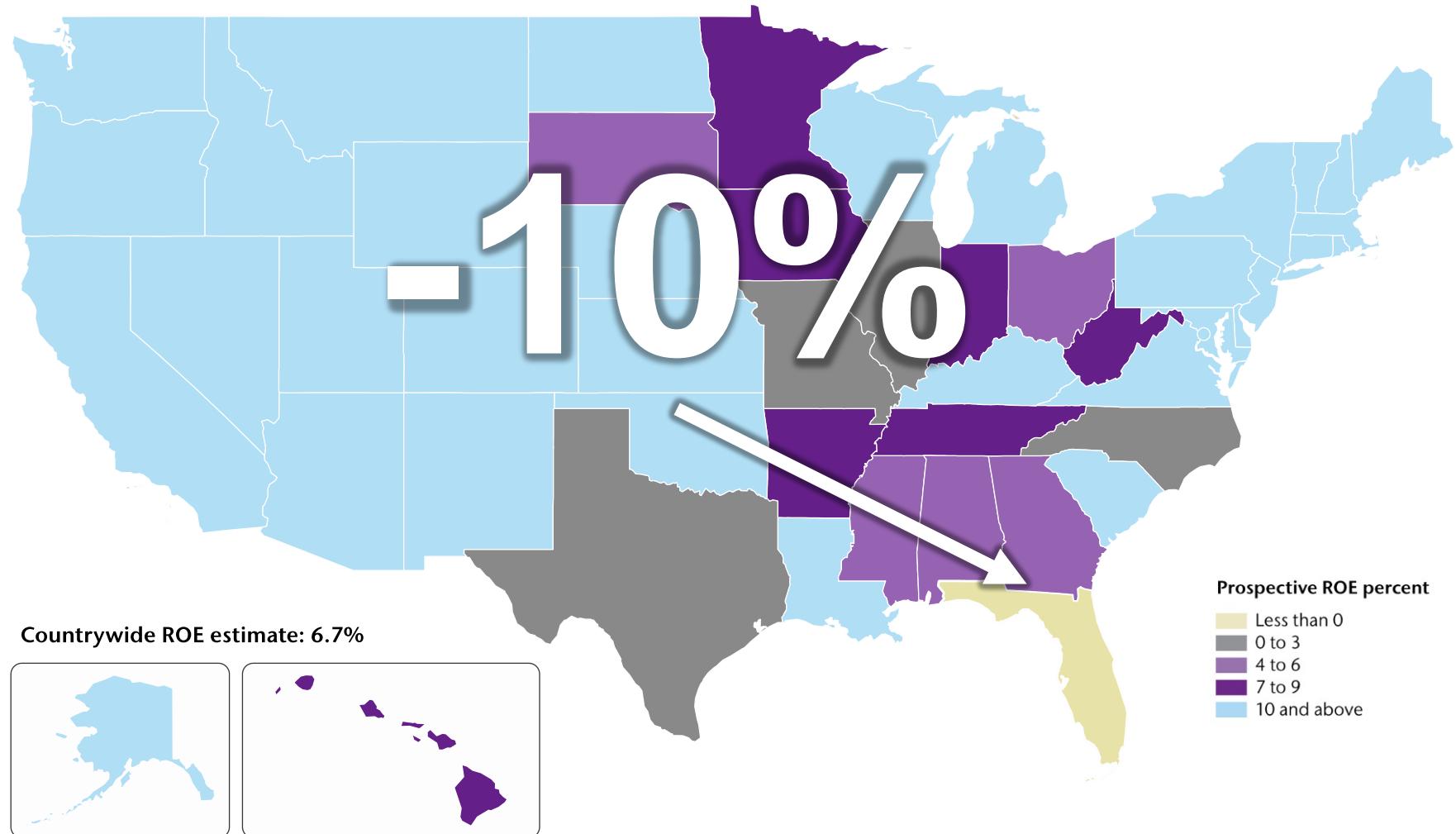
## August 2014 Prospective ROE at Current Rates



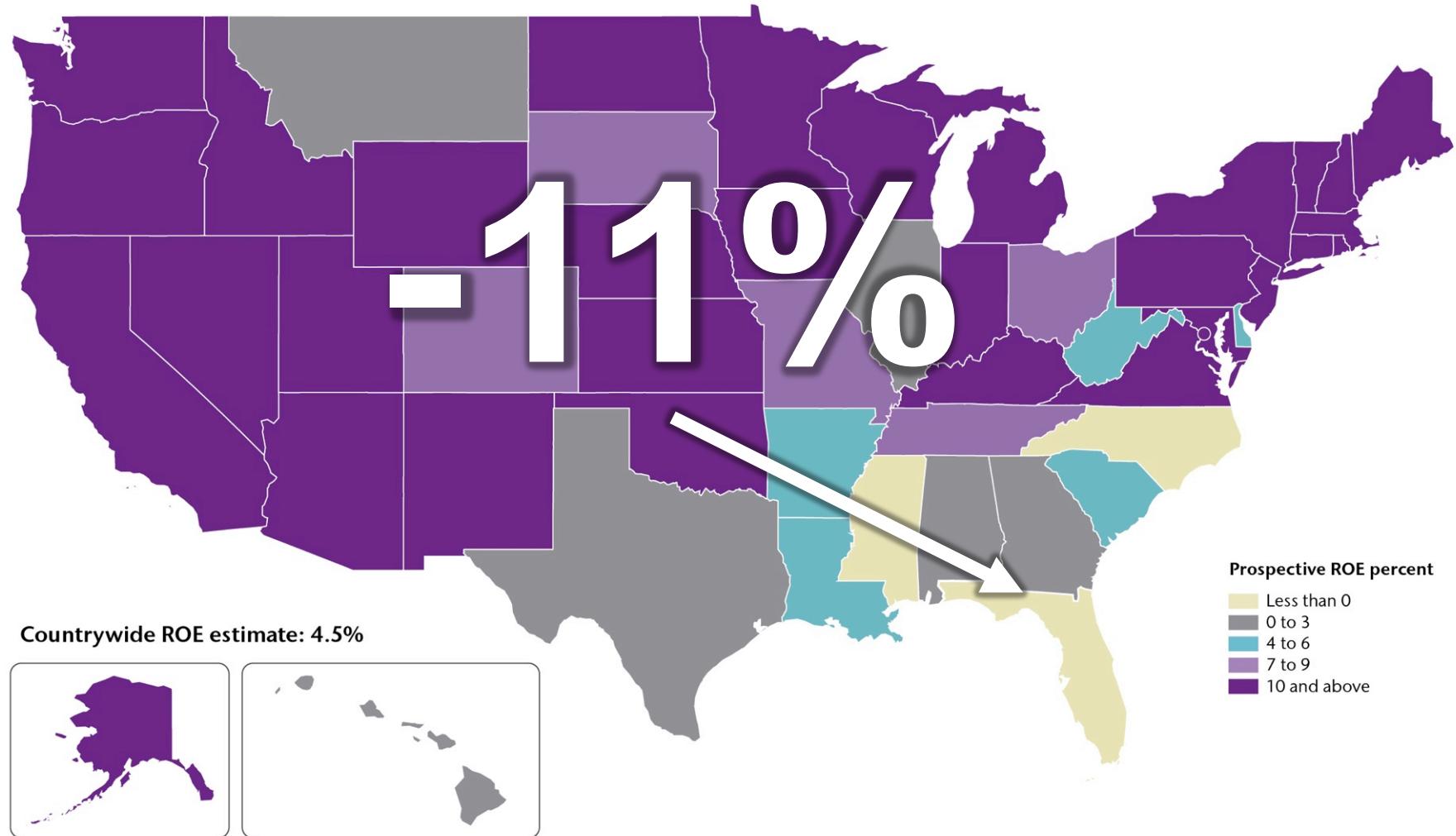
## August 2015 prospective ROE at current rates (Public)



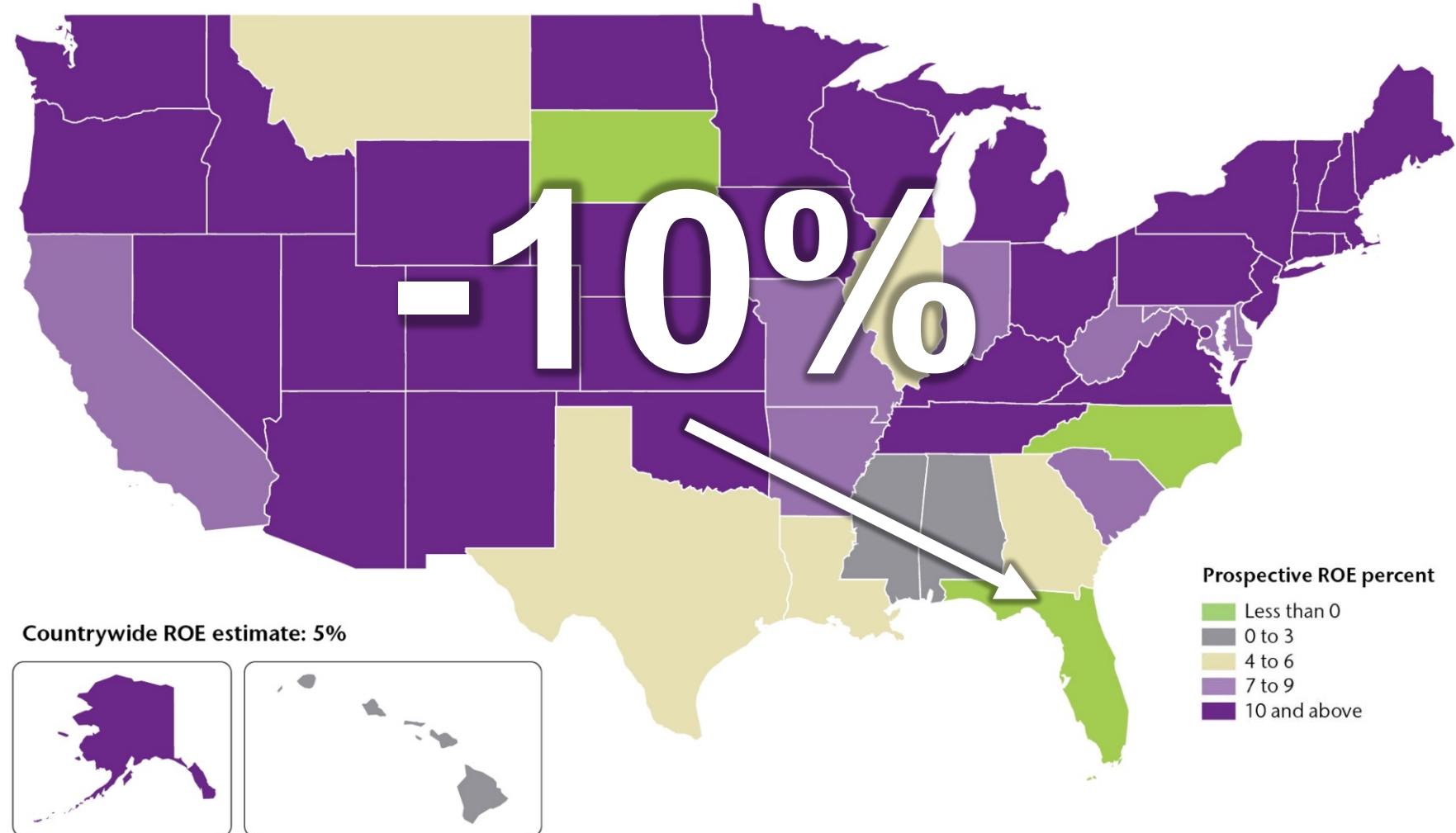
## August 2016 Prospective ROE at Current Rates



## August 2017 prospective ROE at current rates



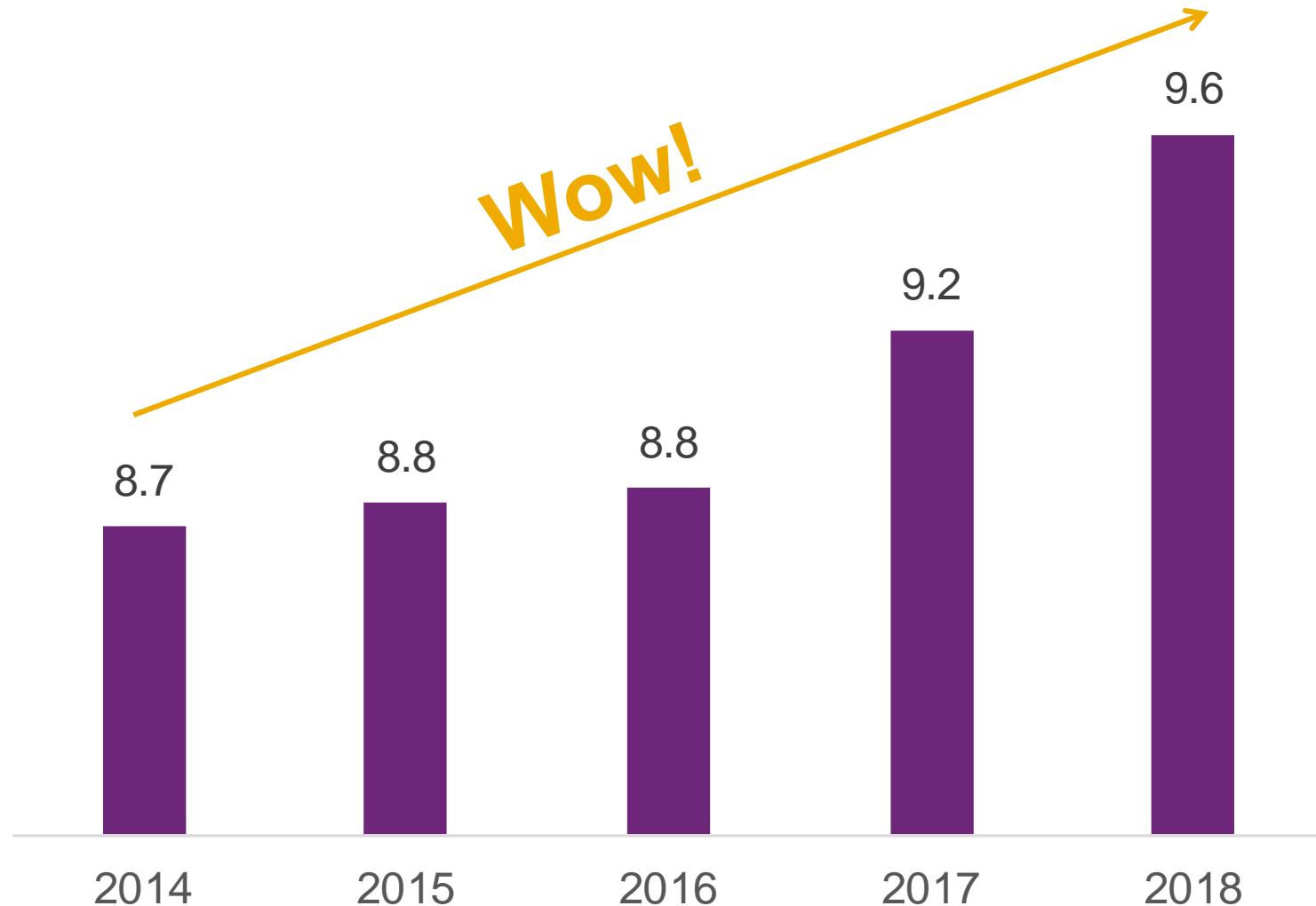
## August 2018 prospective ROE at current rates



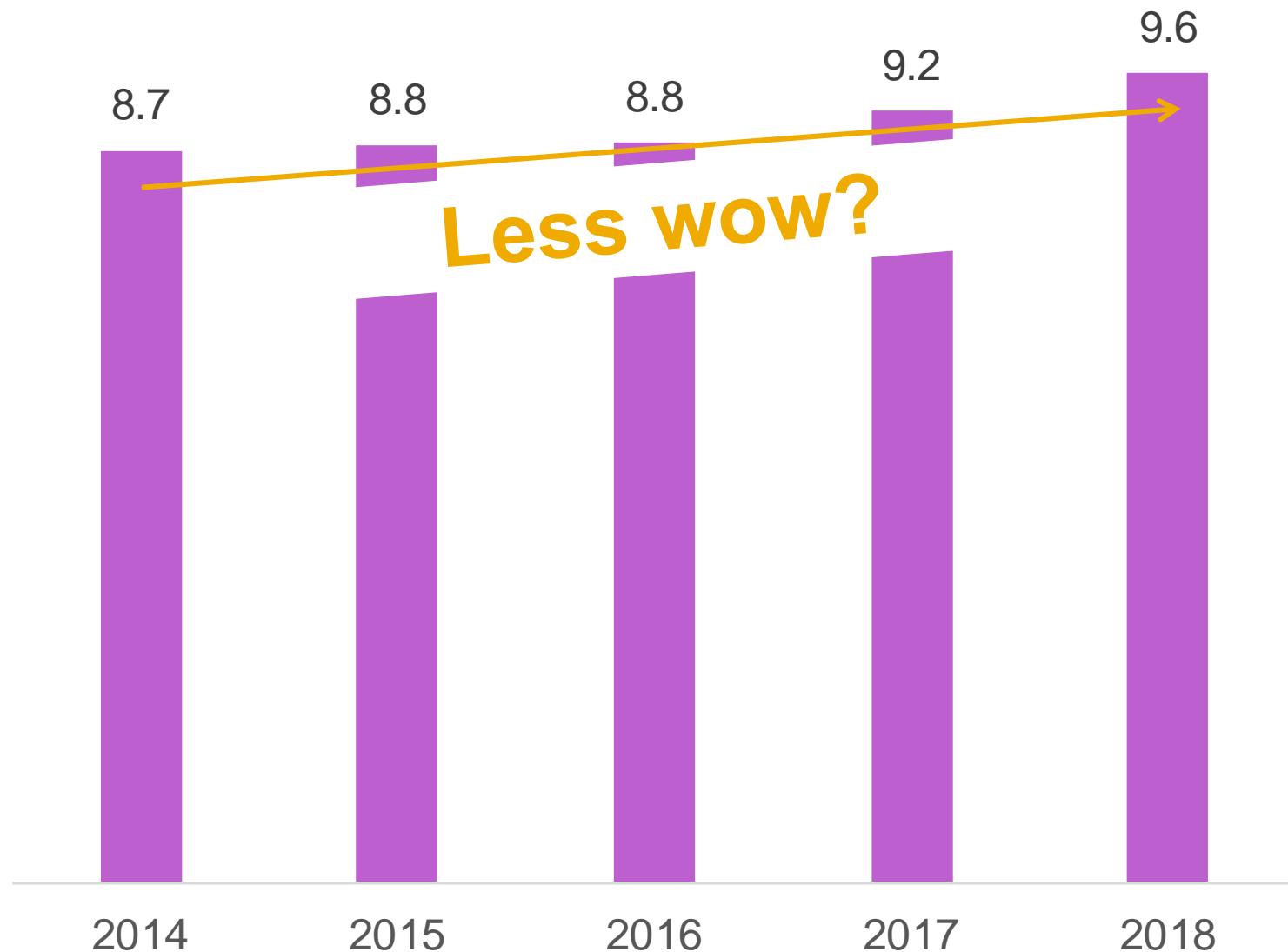


# Does Anyone Believe Those ROEs?

## Florida homeowners industry direct premiums written



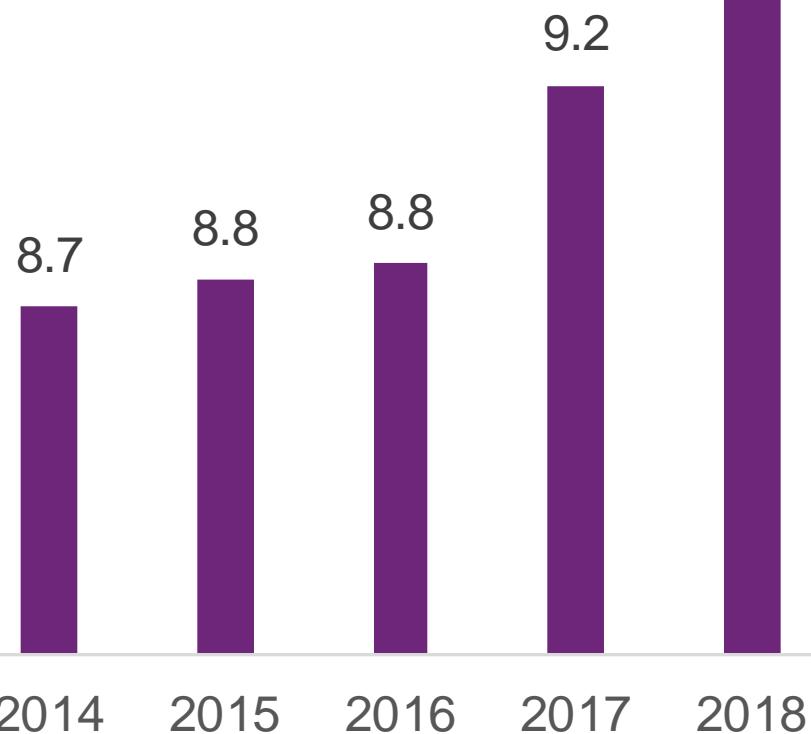
## Or...how to lie with statistics?



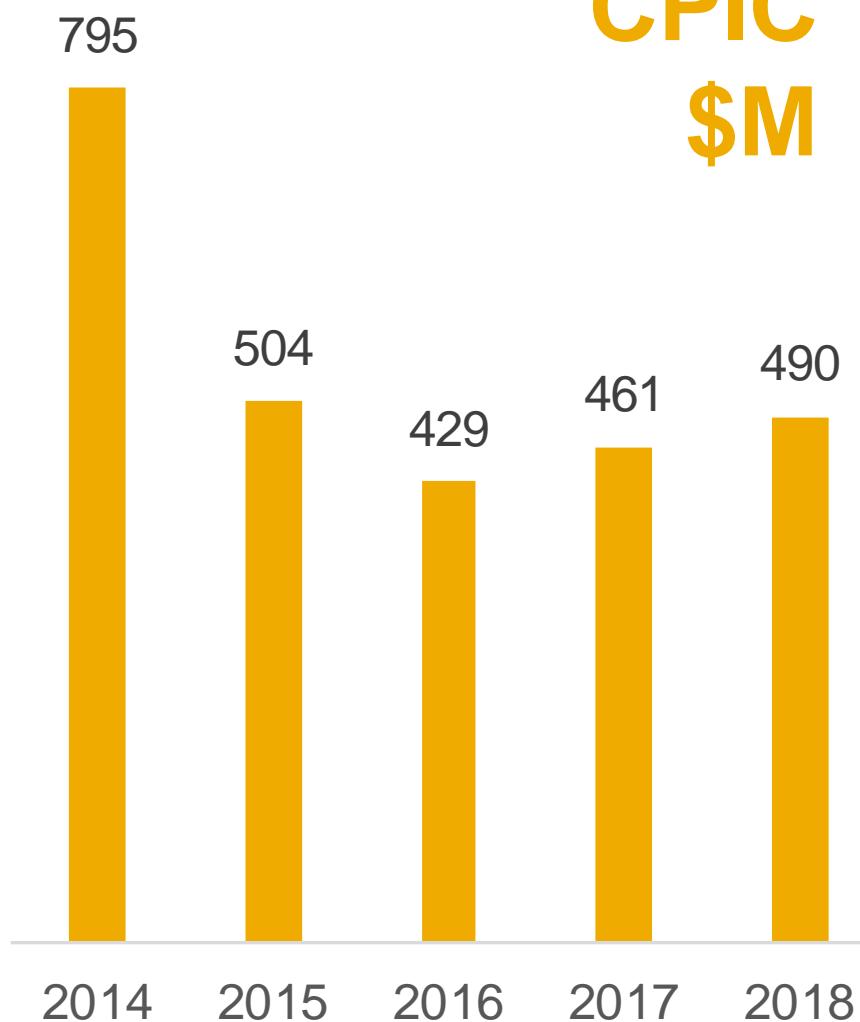
While the industry grew, Citizens shrank

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## Industry \$B



## CPIC \$M



# Market concentration of the largest fifteen carriers

## Florida

### 2018 Market Share      % of Total HO

Universal	9.8	84
State Farm	6.9	4
Tower Hill	6.0	99
Citizens	5.1	100
FEDNAT	4.3	83
Heritage	4.0	49
USAA	3.9	6
UPC	3.7	45
Security First	3.6	100
Progressive	3.5	24
Florida Pen	3.4	100
HCI	3.0	100
First Protective	3.0	86
AIG	3.0	25
St. Johns	2.9	94

**66**

## Illinois

### 2018 Market Share      % of Total HO

State Farm	33.1	7
Allstate	12.0	5
COUNTRY	8.4	45
Farmers	5.8	4
AmFam	5.7	6
Liberty	4.9	3
Travelers	3.1	3
USAA	3.0	2
MetLife	2.3	8
Chubb	2.2	3
Erie	1.9	4
Auto-Owners	1.6	4
Nationwide	1.5	2
Pekin	1.4	42
The Hartford	1.3	5

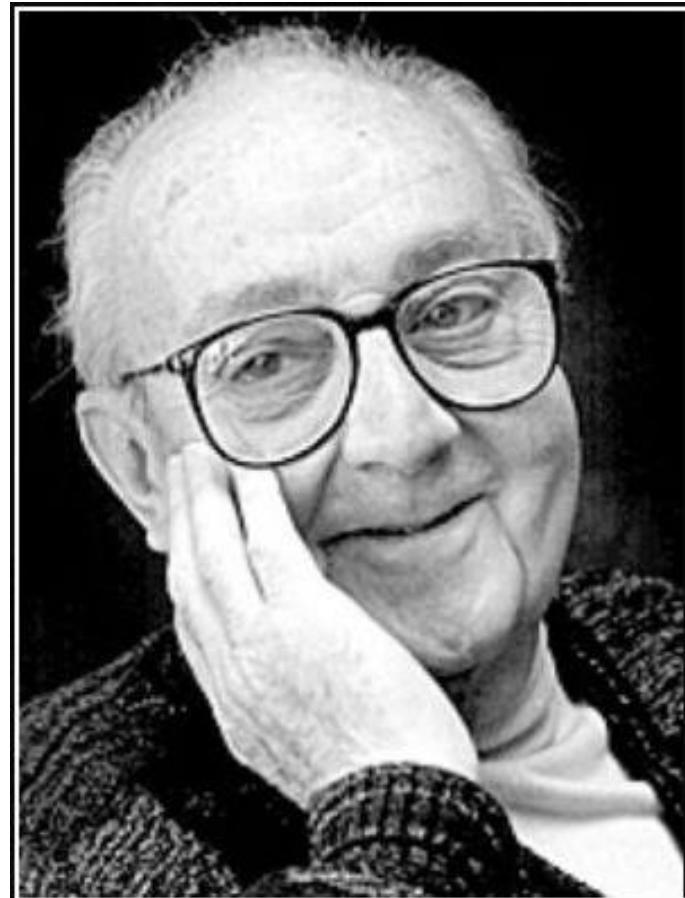
**88**



# What's The Right Way To Evaluate Florida Homeowners?

Before we get started, keep this in mind...

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All models are wrong, but some are useful.

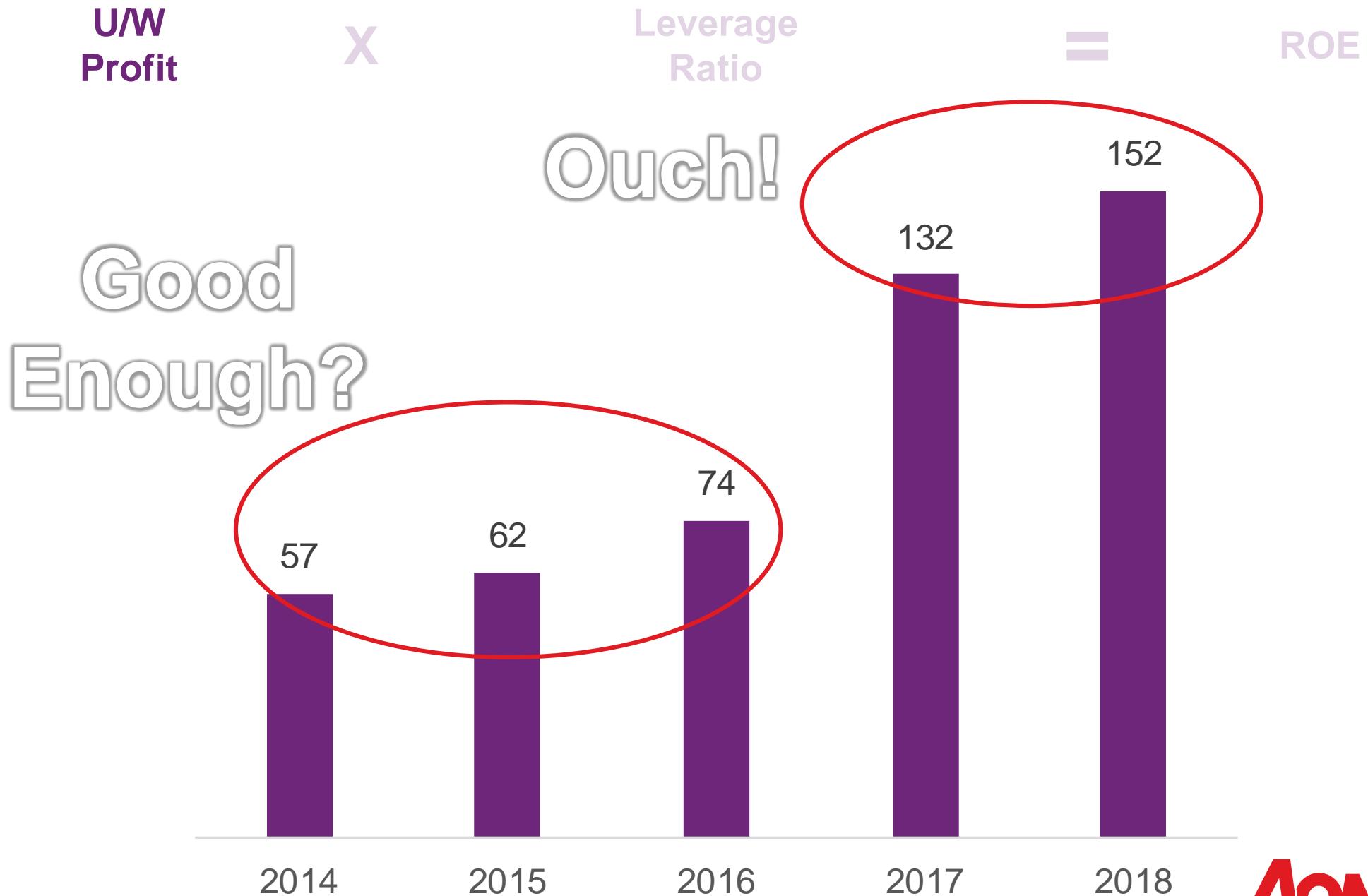
— *George E. P. Box* —

What's in an ROE study, anyway? The ROE formula, sort of!

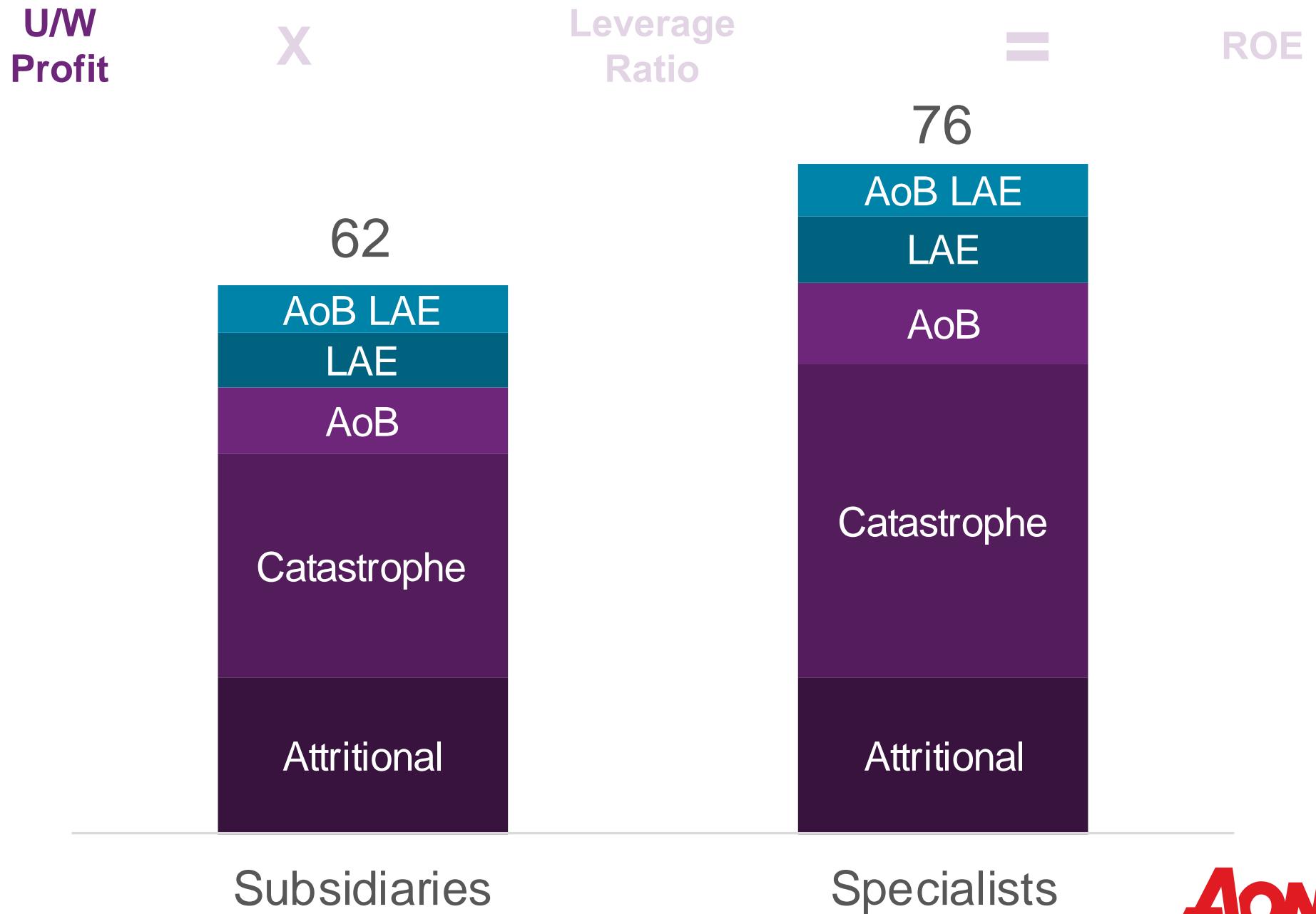
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U/W  
Profit  $\times$  Leverage  
Ratio = ROE

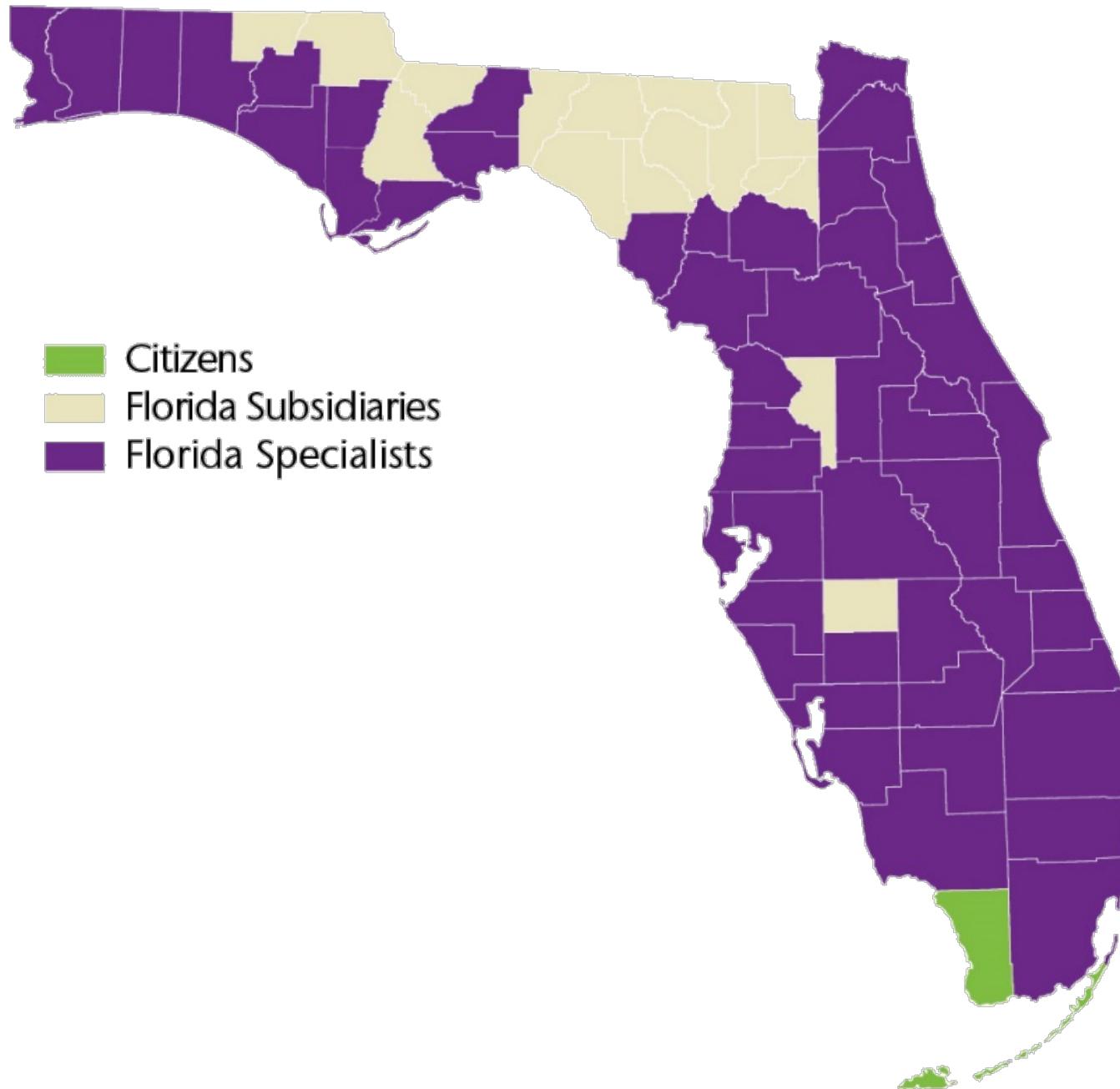
## The underwriting component - Florida homeowners direct CRs



# Building the prospective combined ratio: direct losses and loss adjustment expenses



## Florida who's who: market share by county and cohort



## Building the prospective combined ratio: expenses



## Question 1: Do you believe these loss and adjustment expense ratios?

U/W  
Profit

X

Leverage  
Ratio

=

ROE

76

62

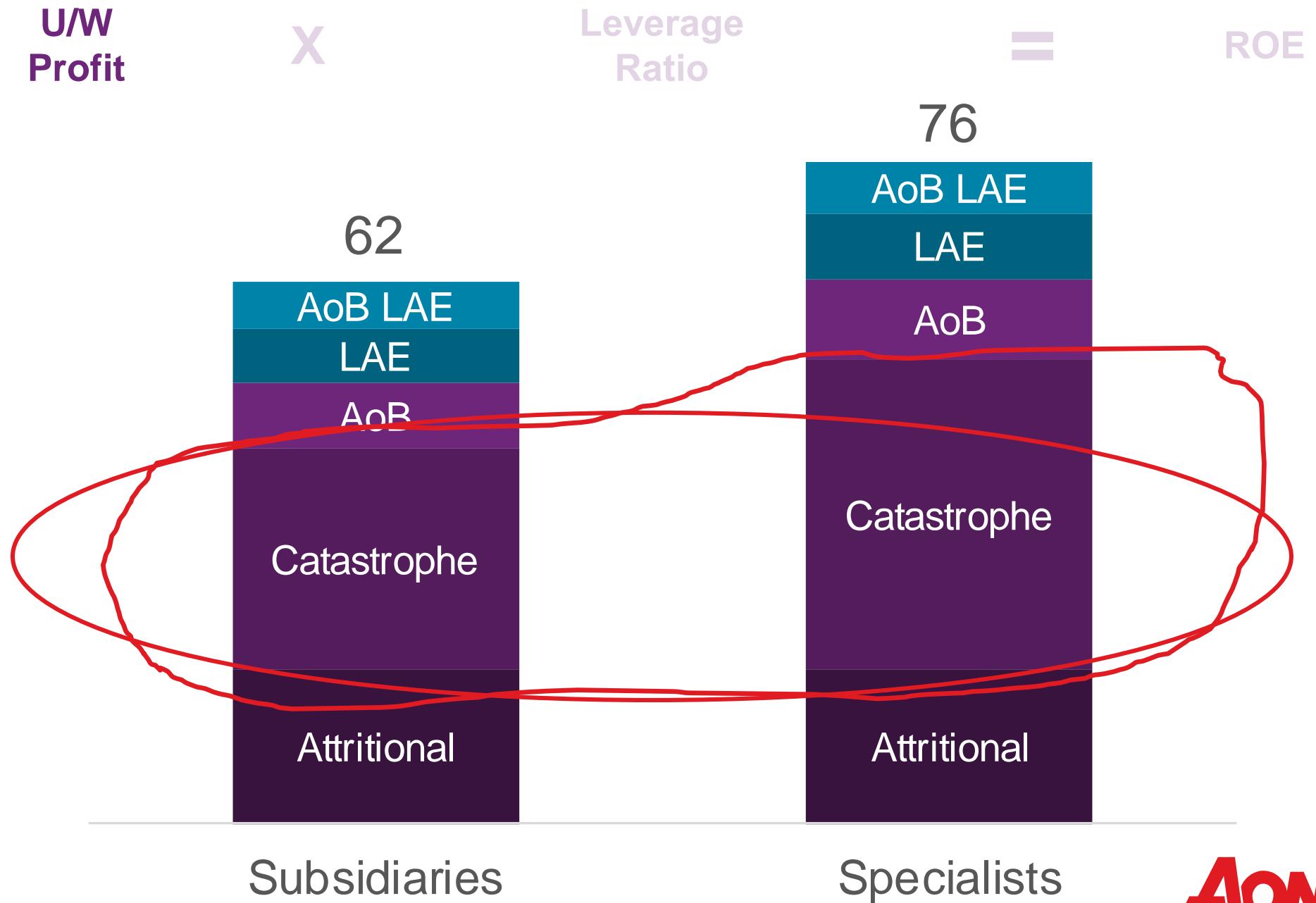


Subsidiaries



Specialists

## Question 2: What happens when the wind doesn't blow?



## What's in your denominator?

U/W  
Profit

X

Leverage  
Ratio

=

ROE

ROE

=

Profit

—  
Equity\*

\*Also known as  
**surplus**, depending  
which accountant you  
talk to

With a long enough lever, I could move the world's profits

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U/W  
Profit

X

Leverage  
Ratio

=

ROE

**0.9:1**  
premium to  
surplus  
ratio

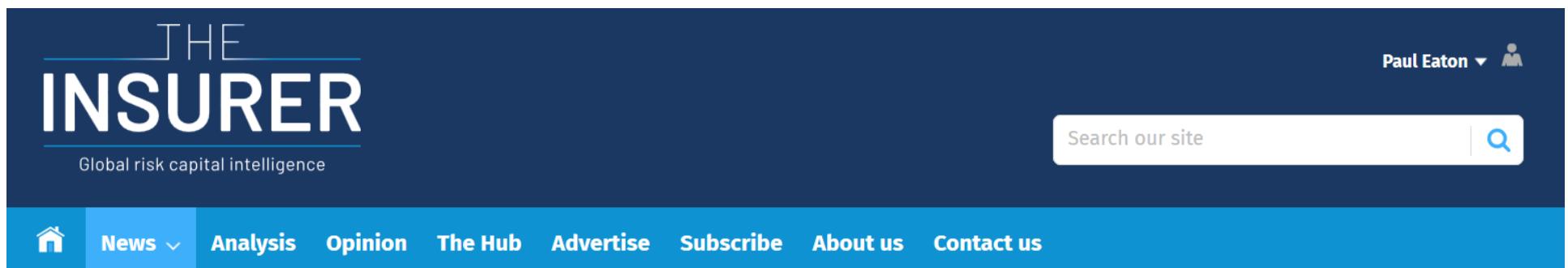
Subsidiaries



**2:1 premium**  
to required surplus ratio  
even with business in  
high risk counties

Specialists

Be careful what you say, and how you say it!



The screenshot shows the homepage of The Insurer. The header features the logo 'THE INSURER' with a subtitle 'Global risk capital intelligence'. On the right, there's a user profile for 'Paul Eaton' with a dropdown arrow and a person icon. Below the header is a search bar with the placeholder 'Search our site' and a magnifying glass icon. The main navigation menu includes 'News' (with a dropdown arrow), 'Analysis', 'Opinion', 'The Hub', 'Advertise', 'Subscribe', 'About us', and 'Contact us'. The 'News' menu is currently selected, indicated by a blue background and white text.

News

## Florida specialists outperform in cat years: Aon



The group of largely Demotech-rated carriers that dominate Florida's homeowners insurance market typically outperform the subsidiary operations of national insurers operating in the state in years hit by hurricanes, according to a report by Aon.

OK, admittedly that is literally what was said

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While they achieve positive ROEs on average, this group models to a

**negative 23**

**ROE** in years with a catastrophe reflecting their **higher net catastrophe retentions**



Aon models

**17 percent**

ROEs for Florida specialists when the wind does not blow



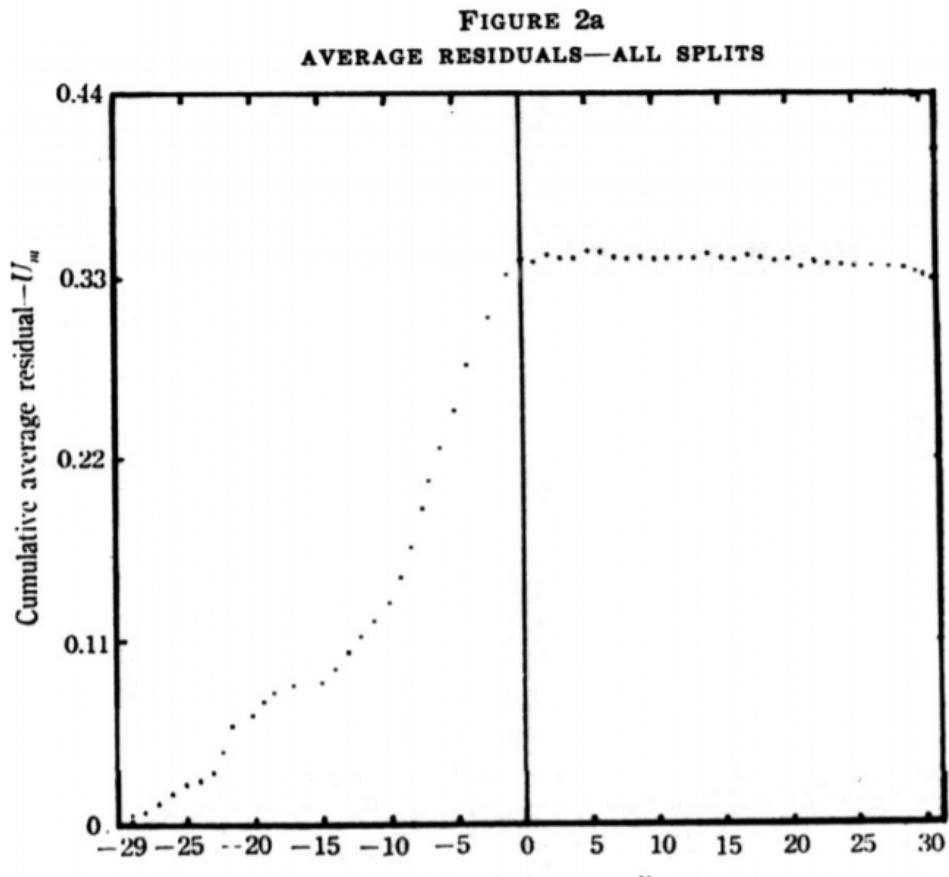
# Risk Tolerance

## Generic definition per Wikipedia...

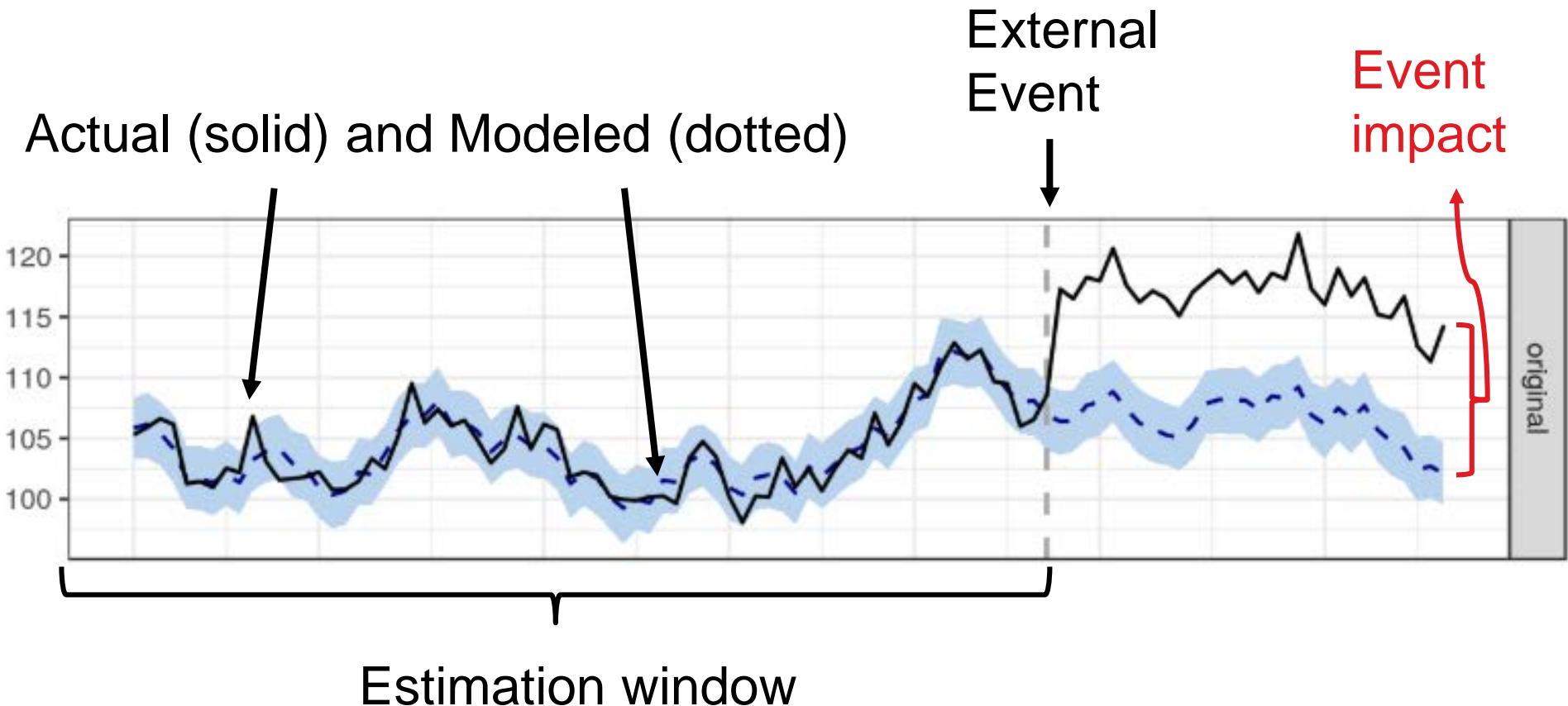
*“An event study is a statistical method to assess the impact of an event on the value of a firm”*

Invented by Fama, Fisher, Jensen, and Roll –

“The Adjustment Of Stock Prices To New Information” (1969)

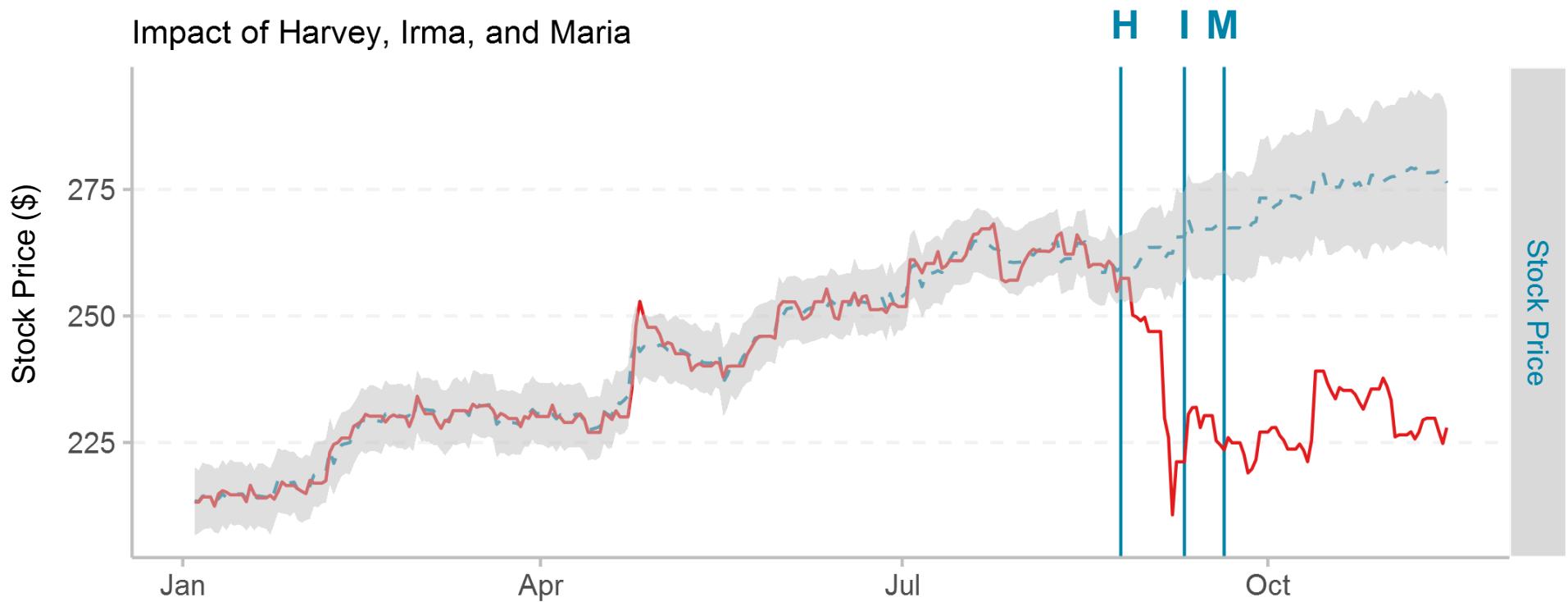


## How is stock price impacted by occurrence of an event?



## Example – Everest Re, 2017 HIM Events

RE: Actual vs. Estimated Stock Price  
Impact of Harvey, Irma, and Maria



## Goal – Implied investor risk appetite

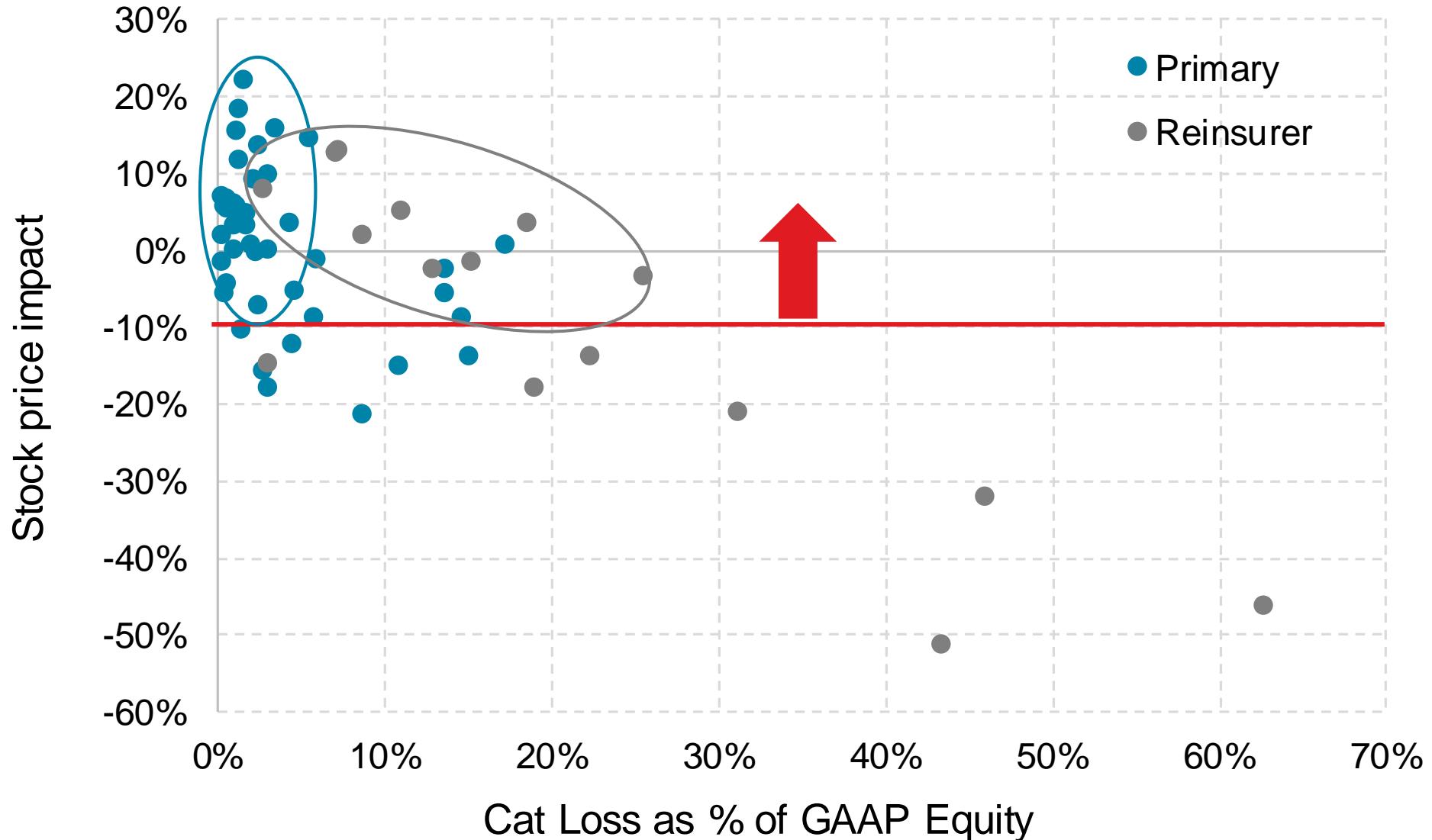
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What proportion of one years earnings can be lost in a single event without an adverse stock price reaction?

What proportion of GAAP equity can be lost in a single event without an adverse stock price reaction?

Does investor tolerance vary depending on what caused the loss?

## Katrina Event Study results



## Katrina Event Study results

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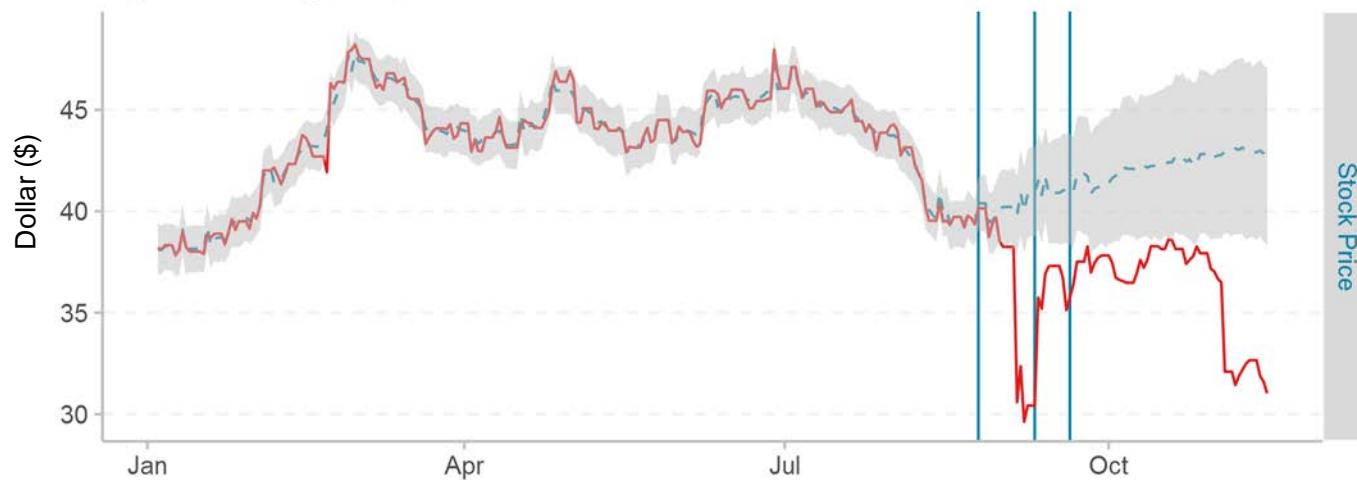
Reinsurers / Insurers losing less than 10% of shareholder value had Katrina losses in the following ranges

<u>Sector</u>	<u>Katrina</u>	
	*Cat loss as % of Capital	Earnings
Insurers	3% to 6%	21% to 34%
Reinsurers	12% to 19%	107% to 110%
Note: *Shown on a net post-tax basis.		

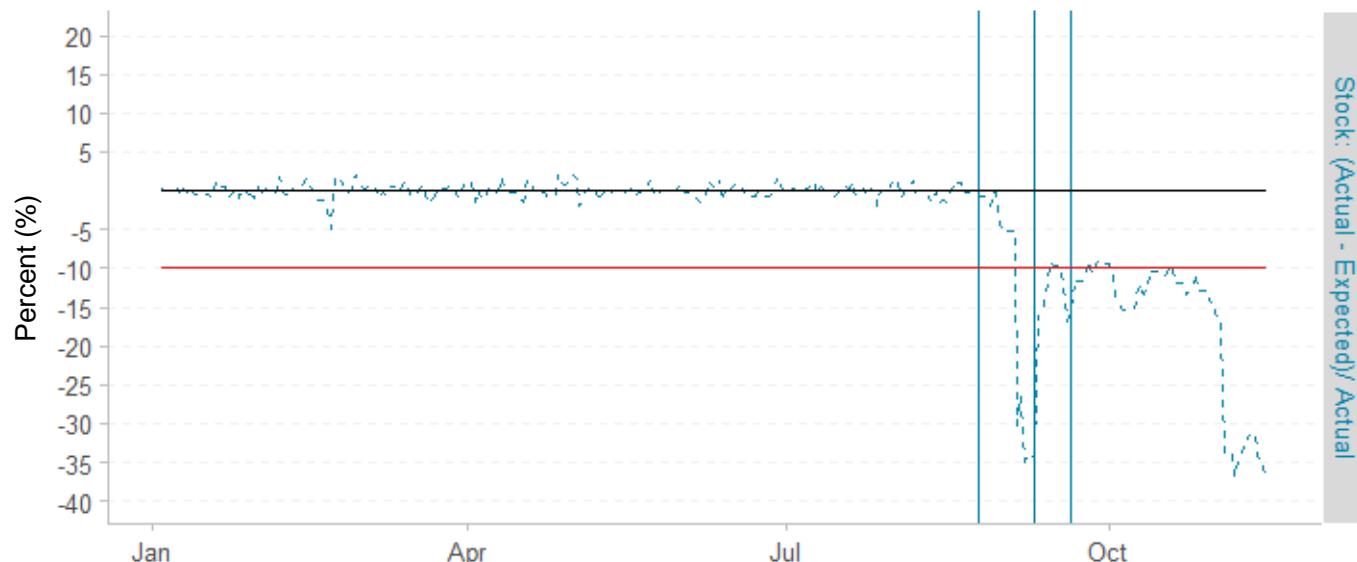
# HIM Event Study – HCI

HCI: Actual vs. Estimated Stock Price

Impact of Harvey, Irma, and Maria

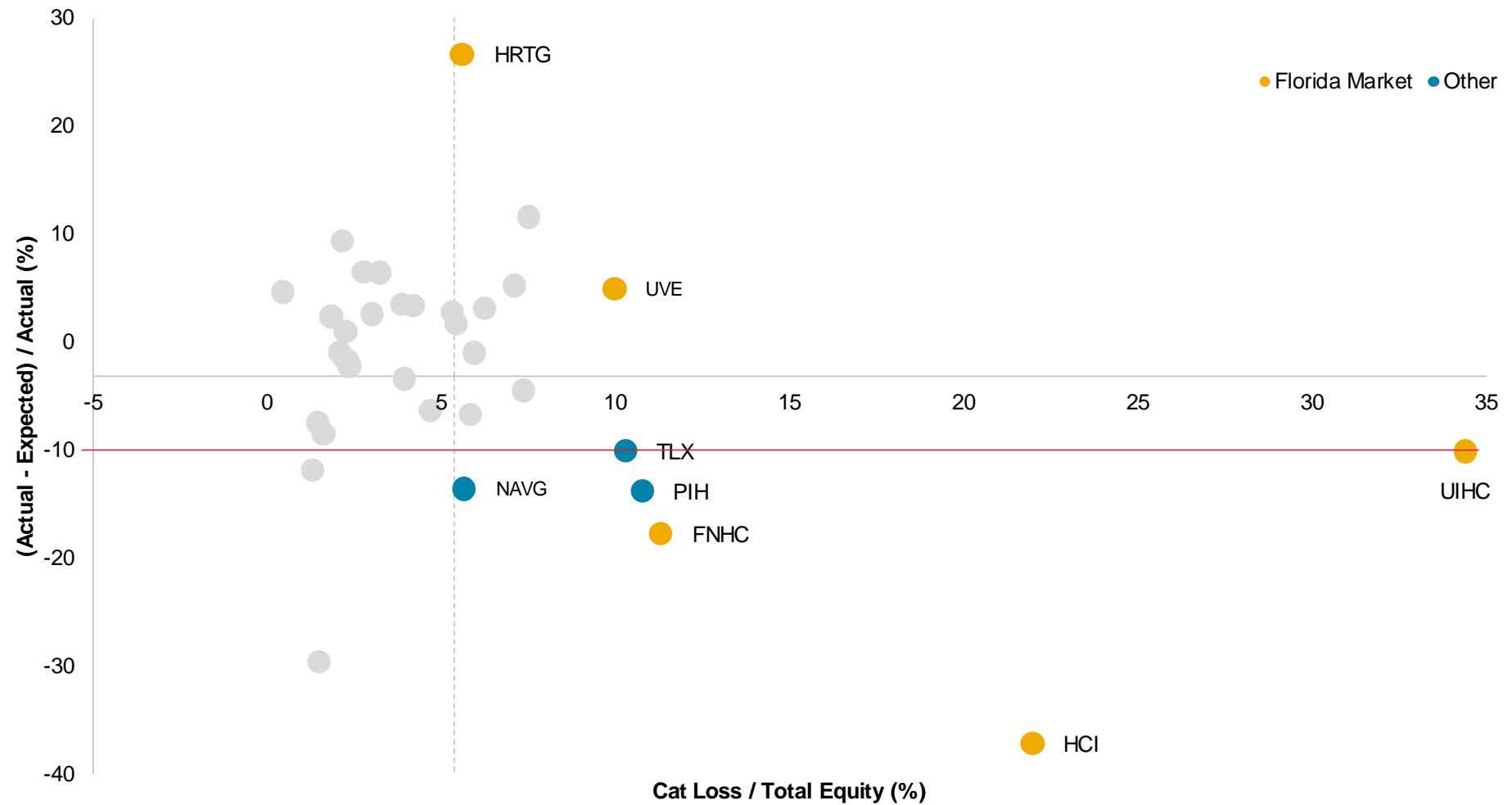


	HCI Group
Group	HCI
Symbol	P
Actual v Expected	-37.1
Average	-15.9
Final	-37.1
Std Dev	1.6
1/1 - 8/24	4.2
8/25 - 11/15	
Harvey	NA
Irma	22.0
Maria	NA
MX EQ & O	NA
Total	22.0



# HIM Event Study – Primary Companies

Cat Loss as % of Equity vs. Stock Price



Note: Dashed line crosses at average  
Cat Loss / Total Equity: 5.4  
(A – E) / A: -3.2

## HIM vs. Katrina

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Reinsurers / Insurers losing less than 10% of shareholder value had Katrina losses in the following ranges

Sector	Katrina		HIM	
	*Cat loss as % of Capital	Earnings	*Cat loss as % of Capital	Earnings
Insurers	3% to 6%	21% to 34%	3% to 6%	24% to 44%
Reinsurers	12% to 19%	107% to 110%	7.5% to 10%	64% to 81%

Note: \*Shown on a net post-tax basis.

# Catastrophe risk tolerance disclosure trend analysis

## Post Tax Net PML as a Percent of Equity: Insurers

	1 in 100 Yr			1 in 250 Yr		
	Count	Median	Max	Count	Median	Max
2018	13	7%	22%	16	10%	32%
2017	15	7%	19%	17	11%	23%
2016	18	6%	23%	17	9%	26%

## Post Tax Net PML as a Percent of Equity: Reinsurers

	1 in 100 Yr			1 in 250 Yr		
	Count	Median	Max	Count	Median	Max
2018	4	8%	15%	7	13%	21%
2017	6	8%	15%	9	12%	21%
2016	5	10%	18%	7	13%	25%

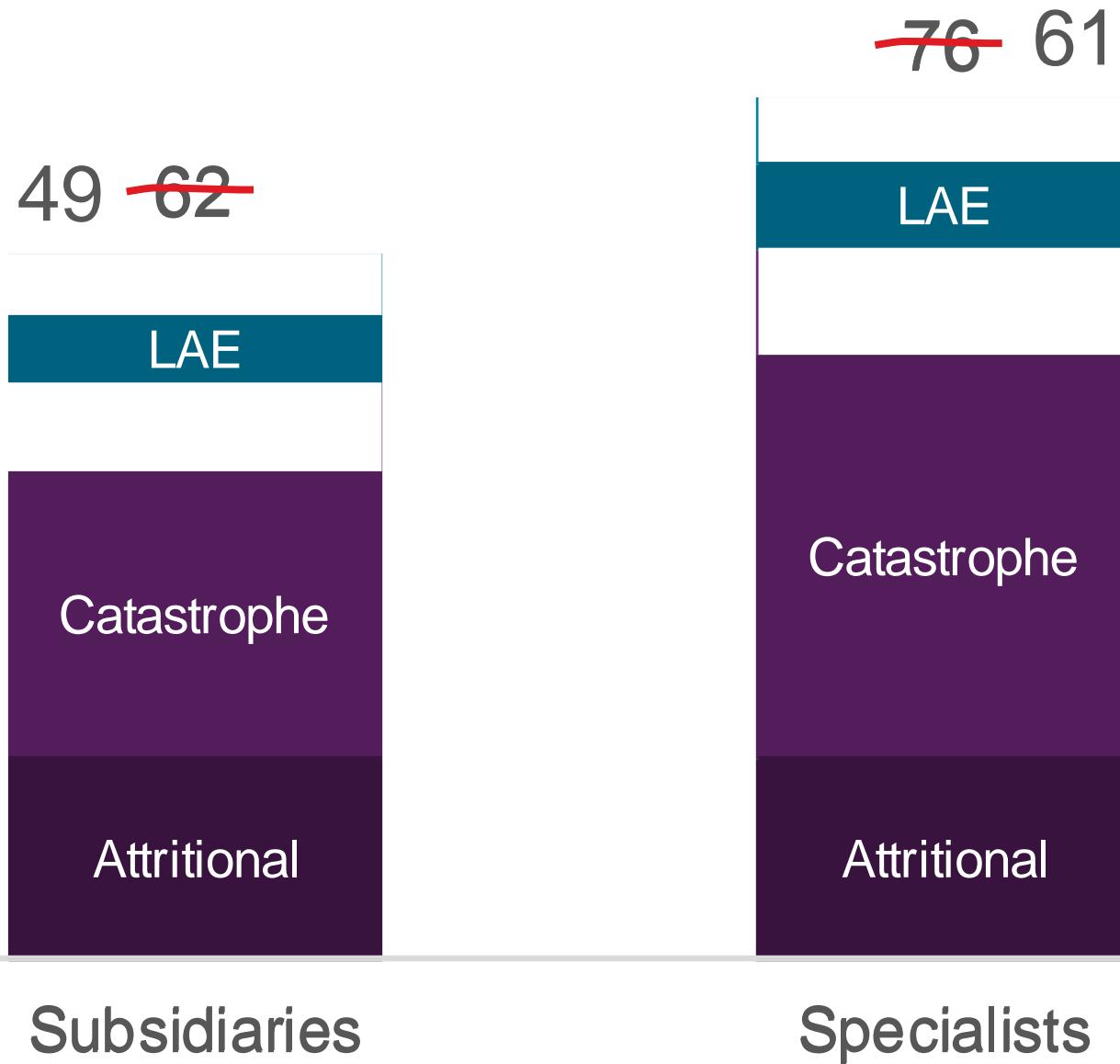
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Note: \*Shown on a net post-tax basis.



## What If The Legislature Really Fixed AoB?

## What if assignment of benefits issues are actually fixed?



Contacts – that's me!

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**Paul Eaton**

**+1.312.381.5553**

**paul.eaton@aon.com**

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