



New Data on AOB Abuse Outlines Real Problem in Florida

A retiree's personal story on "The AOB Trap" reveals the true consumer impact

Assignment of Benefits (AOB) reform is again a big issue before the legislature this session, but what progress will be made toward enacting meaningful reforms remains very uncertain, given the differences between the House and Senate versions of bills (regarding attorney fees) outlined in this issue's *Bill Watch* and the philosophical bents of key leadership. One point that is beyond debate though is that AOB abuse is an explosive epidemic in Florida, with new year-end 2017 information that paints a dismal picture for policyholders and insurers.

Citizens Property Insurance Corporation, the state government-created insurer of last resort, added more than 50,000 policies in the first ten months of 2017, after four years of successful depopulation with the private market absorbing those policies. Citizens President and CEO Barry Gilway noted at the company's recent board meeting that Florida's private domestic insurance market's combined ratio and surplus have declined, with the majority of those companies experiencing negative net income for the first time in five years. The culprit: a rising number of lawsuits, many with AOBs, and a resulting higher net claim payout. Citizens is suffering as well. This chart that Gilway showed his board shows Citizens' non-weather water claims cost is higher when AOBs or attorneys or both are involved.

	Severity	# of Claims	% of Total
Attorney Involved; and AOB	\$29,889	5,042	31.2%
Attorney Involved; No AOB	\$21,269	4,644	28.8%
No Attorney Involved; and AOB	\$9,530	636	3.9%
No Attorney Involved; No AOB	\$4,430	5,828	36.1%
Average Non-Weather Water Claim	\$17,421	16,150	100.0%

Gilway said because of that AOB abuse, combined with the impacts from last September's Hurricane Irma, he expects Citizens will grow by around 66,000 policies in 2018. That, of course, will place additional potential burdens on the taxpayers of Florida, should there be a big event requiring premium assessments. The AOB problem prompted ratings firm Demotech to change its rating criteria for Florida insurers and reports that carriers it rates added \$355 million in additional reserves and surplus in 2017 to avoid a ratings downgrade. Insurance Commissioner David Altmaier warns that annual recent 10% rate increases on homeowners insurance policies in Florida could become the norm.

Today, property insurance companies are bleeding surplus as a result of AOB –driven lawsuits and the ultimate drive for attorney fees. About a dozen law firms, exposed in numerous public hearings, have a laser focus to partner with vendors who use AOBs when either canvassing neighborhoods for work or responding to a policyholder's call for help when water damage or other home repair problems occur.

One recent victim is Ft. Myers retiree Sandra Carlstrom, who fell into what I call “The AOB Trap”. She responded to a flyer in her mailbox from a contractor offering repairs to her roof and interior from water and wind damage from Hurricane Irma. He wanted to charge \$191,000 for a roof replacement that should cost \$30,000. We sat down with Sandra and her daughter Kirsten to talk about their tale of terror on this past week’s [Florida Insurance Roundup](#) podcast. Three months later, no repairs have been made and worse, Sandra’s been threatened with a lawsuit and lien on her house by the contractor – all because of an Assignment of Benefits contract she signed with him. I urge you to listen to this podcast conversation and review the additional statistics it provides on this important issue to Florida insurers and consumers. Please let us know if you have additional questions.