Reduce Insurance Premiums by $100 a Month Without State Appropriation 7.14.23

There are three major reasons insurance premiums rise:

- The Weather - which we can do nothing about;
- Litigation - which the legislature is tackling head on; and,
- Reinsurance - which accounts for almost 50 cents of every Floridians' premium dollar in the private market – this is the largest factor affecting insurance rates for Floridians.

BACKGROUND

Senate Bill 2A (Florida Optional Reinsurance Assistance – FORA) and Senate Bill 2D (Reinsurance to Assist Policyholders Program – RAP) attempted to soften reinsurance pricing but unfortunately wasn't enough as Reinsurance rates continue to rise globally. At a recent reinsurance forum, the majority of reinsurers asked said they have choices where they put their capital and Florida is not always at the top of the list. The litigation crisis that has plagued Florida for nearly a decade has caused Florida to be an unprofitable state to provide reinsurance in. The legislation passed in the 2022 special sessions will eventually change this, but reinsurers will want to see evidence of the positive impact before their investor appetite changes. This creates a lag before the legislation can show the outcome it will produce, lower insurance rates for Floridians

Primary insurance companies that renewed their reinsurance programs with private reinsurers on June 1, 2023 saw a 40% to 60% reinsurance price increase (that gets passed onto consumers) and we expect price increases to continue for Florida insurance companies during the June 1 2024 reinsurance renewal cycle. The December 2022 Senate Bill 2A reinsurance changes, called FORA, was priced too high (60% or more) when in reality FORA should have been priced at 20%-35% to bring down reinsurance and ultimately insurance costs. More importantly, FORA did not provide the coverage that reinsurers are most unwilling to provide.

No one has openly opposed reinsurance reform: To date, reinsurers, insurers, trade associations, a consumer group known as the Federal Association for Insurance Reform and others have not expressed opposition to the ideas presented below because the provisions would be OPTIONAL and SHORT TERM, i.e., 2 to 3 years, until the worldwide markets settle. During the 2023 session, we continued to hear that there was "no appetite" to tackle reinsurance costs and in fact the Governor focused on tort reform. The two 2022 special sessions did not have an immediate impact on rates though some believed that would happen.

HOW DO WE REDUCE REINSURANCE COSTS TO REDUCE FLORIDIANS' PREMIUMS IN THE NEXT 90 to 120 DAYS?

Create the Florida Insurance Rate Reduction Mechanism (FIRRM)

Florida has the blueprint to provide a temporary solution by replicating the widely successful Florida Hurricane Catastrophe Fund (Cat Fund). The Cat Fund, since its 1992 creation, has been a stable and policyholder-friendly mechanism, never needing any state appropriation dollars and funded by the premiums that insurance companies would have otherwise paid to private reinsurers. The Cat Fund has actually been able to save Floridians about $3 billion a year. The savings come from the fact that the Cat Fund does not need to include a profit margin in its reinsurance pricing that would otherwise be paid to private reinsurers.

The FIRRM proposal in the short term brings down reinsurance rates which ultimately reduces costs to policyholders and costs the state **nothing**. It is simple to enact, with the current Cat Fund team administering the nearly identical program and would provide insurance companies with the coverage they desperately need without an appropriation from the state. FIRRM would develop and charge actuarially sound rates that would fund the coverage, with the ability to assess for any shortages.

KEY TAKEAWAYS OF FIRRM

FIRRM would be:

- Temporary until the private reinsurance market stabilizes;
- Optional for insurance companies to participate;
- Costs about half of what insurance carriers pay to private reinsurers, savings FL homeowners near $2 billion a year; and,
- Cost the state nothing to put in place.

TECHNICAL ASPECTS

- FIRRM would "attach" at $500 million to $1 billion
- Limit $3 Billion
- All perils coverage
- Maximize single event coverage, two limits is ideal and creates even more rate reduction
- FORA from Senate Bill 2A can be integrated into FIRRM's coverage or left as a separate program

Questions? Lisa Miller 850-528-9229 or Paul Handerhan 561-704-0428.