



# Managing Expectations

Why Florida Homeowners Insurance Premiums Are  
Not Likely to Go Down

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*The Innovation and Technology Leader in Catastrophe Risk Modeling*

## About the Author

**Karen Clark** is Co-founder and CEO of Karen Clark & Company (KCC) and a leading global authority on catastrophe risk assessment and management. Ms. Clark founded the first modeling company and is credited with creating the catastrophe modeling industry. KCC has introduced new **transparent and accurate models** along with the first open loss modeling platform, RiskInsight®. KCC models currently cover over 50 countries, and the perils of hurricane, earthquake, severe convective storm, wildfire, and flood, and are used by global reinsurers, insurers, and ILS investors.

In 2021, KCC was named Catastrophe Modeling Firm of the Year by Inside P&C for “**precision, accuracy, and successful innovation in the science of catastrophe risk modeling.**” That same year, KCC was named winner of the PropertyCasualty360 Insurance Innovators Award in the categories of Technology Innovation and Risk Management Innovation.

Ms. Clark has been personally recognized for her contributions to the insurance industry. In 2007, she was honored with an award certificate for the **2007 Nobel Peace Prize** bestowed on the Intergovernmental Panel on Climate Change (IPCC) for her support of the work of the IPCC since its inception. Reactions Magazine ranked Ms. Clark the 14th most influential person in the insurance industry over the last 30 years, and National Underwriter named her the 6th most influential *Living Legend*. Ms. Clark has been honored with the Katie School of Insurance and Financial Services, Hall of Fame Innovation and Leadership Award and the International Insurance Society’s John S. Bickley Founder’s Award.

## Executive Summary

Florida homeowners have become dismayed by the amount they pay for insurance to protect, what is in many cases, their largest asset. Many homeowners do not understand the factors that go into calculating their insurance premiums, and Florida homeowners are demanding legislative actions to reduce their insurance costs.

Simply put, **premiums go up when claims and expected losses go up**. This briefing explains the most important factors driving insured losses up over the past several years—hurricanes, other weather-related events, inflation, and excess litigation. Only one of these factors can be influenced by the Florida legislature, and by explaining the other factors clearly, legislators are better prepared to manage consumer expectations.

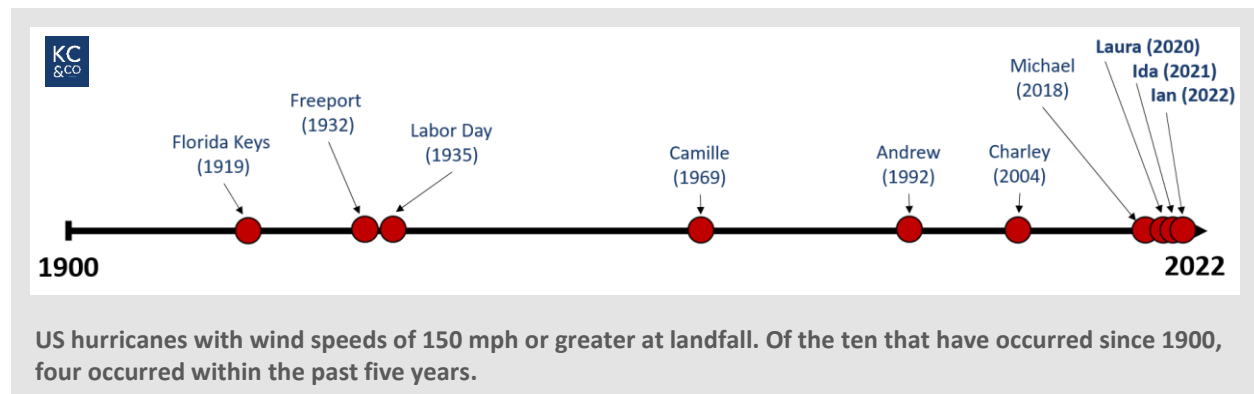


## Hurricanes

Over the past five years, four hurricanes with maximum wind speeds of 150 mph or greater made landfall along the US coastline, including two in Florida (Michael, Ian). The period of 2020 to 2022 was the first time in the historical record that hurricanes of that intensity made US landfall in three consecutive years. While Michael and Ian caused tremendous devastation in Florida, the damage and insured losses would have been far greater had those hurricanes made landfall near Tampa or Miami.

Recent hurricane activity is adding observational support to the findings of the most recent report from the IPCC. This report includes the scientific consensus that hurricane severity is increasing due to global warming. Scientific studies and recent data point to an increase in the proportion of major hurricanes—Category 3, 4, and 5—and more intense storms overall.

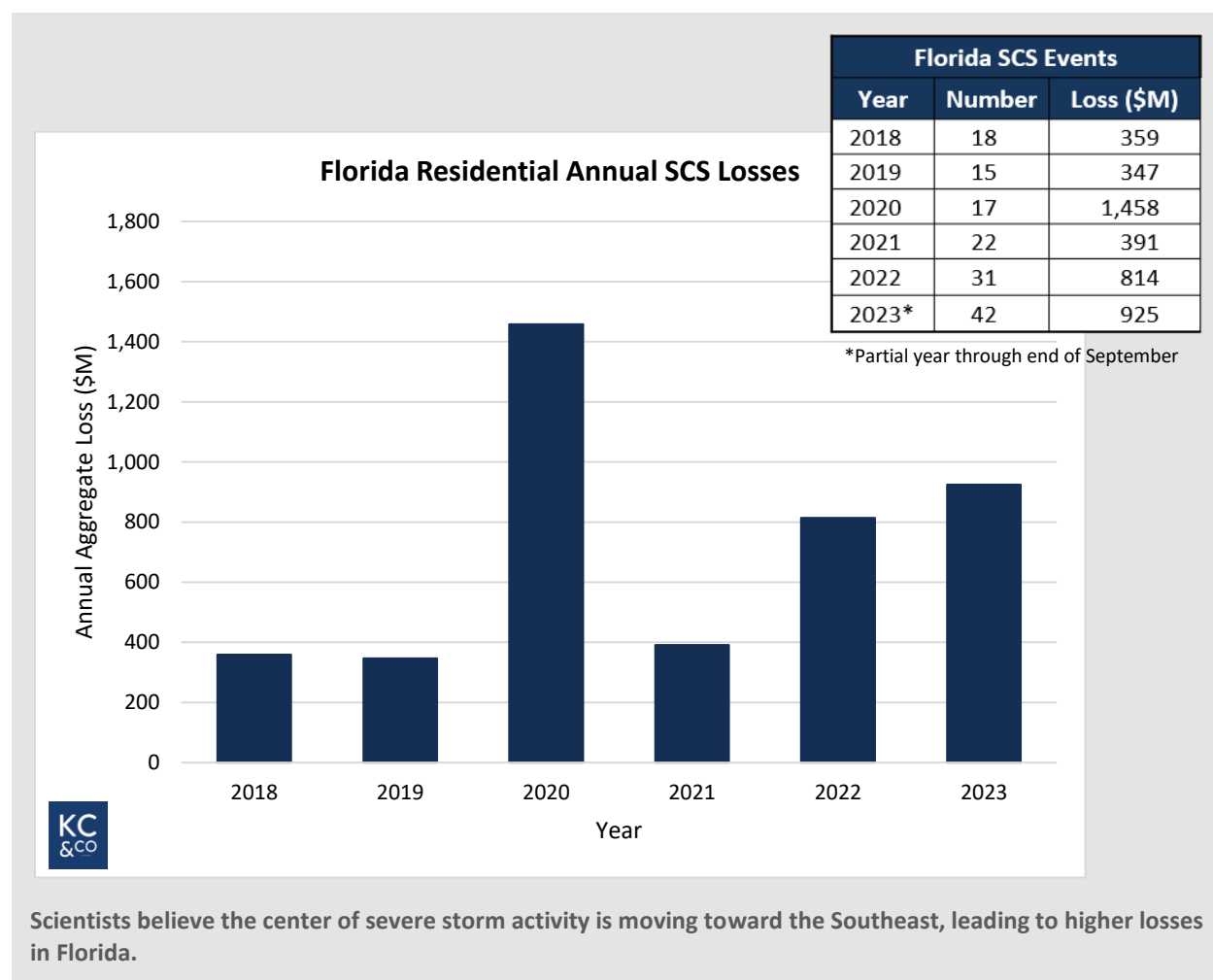
These trends are projected to continue even in the IPCC best-case scenarios, increasing the risk to Florida homeowners and the losses to Florida insurers.



## Non-hurricane Catastrophes

Non-hurricane catastrophe losses are caused by other weather-related events. The most significant of these are severe convective storms (SCS) that are typically accompanied by damage-producing tornadoes, hail, and/or high wind gusts. Floods and wildfires also cause damage in Florida but to a much lesser extent.

There is evidence that rising sea surface temperatures in the Gulf are contributing to a shift in SCS activity from Tornado Alley (Midwest) to Dixie Alley (Southeast). This means higher hail, tornado, and straightline wind losses in Florida than have been observed historically. The image below shows the Florida residential SCS losses by year, highlighting the large losses in recent years.



## Inflation and Rising Construction Costs

In general, homeowners premiums are based on the cost to repair/rebuild the home and a rate that reflects the chances of the home being damaged by a covered peril, such as a hurricane or tornado. Construction costs increase every year, directly increasing the cost to repair or replace damaged property.

Even if insurance rates don't increase, homeowners premiums will increase due to the rising costs of construction. Recent material and labor shortages have caused double digit annual increases in the cost of repairing or replacing a Florida home, and those increases have contributed significantly to the cost of homeowners insurance. **Based on current cost indices, the average cost of construction in Florida has increased nearly 40 percent since 2017.**

## Excess Litigation

Detailed studies conducted by KCC scientists and engineers across multiple storms and insurers indicate single family home insured losses in Florida have been significantly inflated over the past several years due to **excess** litigation. While some level of litigated claims is to be expected for every event, the percentage of litigated claims in Florida has been excessive relative to litigation activity in other states.

Comparing Hurricanes Irma and Michael to non-Florida storms, including Laura and Ida, the percentage of litigated claims in Florida has been, on average, 10 times higher than the percentage in other states. There is not as much difference in the relative size of claims—while there is a wide range, on average, litigated claims are about seven times more costly than non-litigated claims.

While it varies by company, the data indicate the Hurricane Irma and Michael single family home claims were 30 to 50 percent higher than they would have been without the excess litigation.

KCC's most recently approved hurricane model includes an explicit factor of 15 percent to account for excess litigation. This factor is much lower than what is indicated by the data from Irma and Michael because it is assumed that recent legislative reforms will significantly reduce excess litigation.

## Reinsurance Supply and Cost

Most Florida insurers are heavily dependent on reinsurance, and along with claims, reinsurance costs are a significant component of Florida insurers' overall costs, which must be covered by premiums.

Over the past couple of years, reinsurers have been restricting coverage and drastically increasing their prices. Reinsurers base their prices on their own risk appetites and what the market will bear and **not** on the models. Anyone under the misconception that reinsurers base pricing on the models, need only witness the recent 50 to 100 percent price increases that were clearly not indicated by the models.

Actions of reinsurers will influence future Florida insurance premiums. CEOs from the world's leading reinsurers who gathered at this year's Monte Carlo Rendez-Vous warned insurers in cat-prone areas that property reinsurance rates will not go down in 2024, and future increases should be expected. **Reasons cited include increasing risk, reinsurer loss history, and heightened inflation.**



## Conclusions

The Florida legislature cannot control the hurricane and severe weather risk any more than it can control the ever-increasing costs of construction. These factors will continue to influence future homeowners premiums, and it is unlikely these costs will go down.

On the other hand, already enacted legislation should have a major impact on excess litigation in Florida, and therefore, significantly mitigate *future* premium increases. **In other words, without the recent legislation, Florida homeowners premiums would be higher.**

Due to Florida's unique coastal position and because the population is concentrated along the coast, Florida will be disproportionately impacted by climate change and sea level rise. The only ways to significantly mitigate these impacts are more stringent building codes, retrofitting existing properties, and land use planning. The KCC weather and catastrophe models are advanced and valuable tools that can help inform these decisions.

