State of the Florida Homeowners Market

Commitment Beyond Numbers

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About the Presenters

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Agenda

- Background: Recent Issues in Florida HO Reserving
- By-Segment Analysis
  - Analysis Segmentation
  - Florida Property Market: It’s (Still) Always Something!
- Assignment of Benefits: Market/Regulatory Response
- Assignment of Benefits Analysis
  - Water Damage (and Development Pattern Shifts)
  - Wind/Hail/Lightning
- By-Segment Comparison
- Hurricanes Irma and Michael
- Preparation for Year-End 2018
- Rate Activity
- Managed Repair Programs
Background:
Recent Issues in Florida HO Reserving
Recent Issues in Florida HO Reserving

• Catastrophes
  – 2004 and 2005 had multiple major hurricanes
  – Until recently no major hurricanes had made landfall in Florida
  – Companies still experienced loss development from 2004 and 2005 for several years
  – Many companies saw spike in Wilma claims five years after landfall due to statute of limitations and public adjusters
  – SB408 in 2011 included language requiring hurricane claims be submitted in three years but this limit hasn’t been applied to a large storm yet

• Sinkholes
  – Sinkhole losses became a major concern for the HO insurance market several years ago
  – Loss ratios trended up and companies reacted strongly in multiple ways
    • Pricing
    • Underwriting
    • Policy language
  – SB 408 was passed and signed into law in 2011
  – Sinkhole loss ratios drop dramatically and now make up only a minor portion of HO losses
Florida HMP Industry Loss Ratios Excluding Catastrophes - Quarterly

Source: PCI/ISO/NISS Fast Track Data
FL HMP Industry Loss Ratios Excluding Catastrophes
rolling 12 month ending

Source: PCI/ISO/NISS Homeowners Fast Track Data
Current Issues in Florida HO Reserving

- Varying trends and development patterns by peril
- Assignment of Benefits (AOB)
- Recent Hurricane Activity
By-Segment Analysis
Data

- Loss and defense and cost containment expenses (DCC) combined
- Gross of ceded reinsurance
- Includes all homeowners and dwelling fire policy forms
- Excludes
  - Commercial business
  - Claims closed without payment (loss or DCC) – CNPs
    - Impact ability to recognize loss drivers
    - Ratio of CNPs to reported claims have changed
  - Catastrophe claims (except where noted)
  - Sinkhole claims (except where noted)
Considerations

• No geographic bifurcation – Tri-Counties area vs. remainder
• Aggregated by accident year – not closure year
  – Includes provision for unreported claims
  – Includes provision for incurred but not reported (IBNR) reserves
  – Improves determination of underlying trends
  – May conceal shifts in reporting and settlement lags
• Representative cross section of Florida experience
  – Mix of large and small carriers with various geographic concentrations
  – Relative trends and directional changes more important than absolute indications
Considerations

• Wind/hail/lightning claims proxy for AOB roofing claims
  – Indications also impacted by increase in weather events
  – Long-term and short-term trends can be misleading
Analysis Segmentation

Commitment Beyond Numbers
Prior Analysis Segmentation

Accident Year


Analysis Segment

All Other Perils (AOP) Sinkholes Catastrophes
Current Analysis Segmentation

Analysis Segment

Accident Year

Water Damage

Wind / Hail / Lightning

New AOP

Sinkholes

Catastrophes

2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Florida Property Market: It’s *(Still)* Always Something!
Loss Cost: By Cause of Loss

- Hurricanes: Charley, Frances, Ivan, and Jeanne
- Hurricanes: Dennis, Katrina, Rita and Wilma
- Hurricane Matthew
- Hurricane Irma

Accident Year

- Catastrophes
- Sinkholes
- Water Damage
- Wind / Hail / Lightning
Insurers commenced aggressive defense stance, implemented restrictive policy language, and offered buyback coverage.
Loss Cost: By Cause of Loss (ex-Catastrophes)

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Florida Senate Bill 408 passed on 2/22/2011.
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Assignment of Benefits: Market/Regulatory Response
What is AOB?

- AOB is not a type of claim, rather a mechanism with which to report and address claims.
- AOB allows the insured to permit outside parties, such as contractors, to request payment from their insurance companies on their behalf.
- AOB’s goal is to streamline the claims process for homeowners and create a better overall customer experience.
- However, some contractors with an AOB in hand have made claims for much higher values than expected.
- Attorneys associated with AOB claims have also increased costs through more claims going to litigation.
- Studies by the OIR and by Citizens have shown a large disparity in claims based on whether or not an AOB is involved. This along with tremendous growth in claims using AOB have led to higher losses and higher rates.
AOB and Attorney Fees

• Upon the AOB, the assignee takes on rights of insured
• Under Florida’s current one-way attorney fee statute, policyholders suing their insurer over a claim dispute can recover their attorney’s fees if the insurer is shown to have underpaid the claim, by any amount.
• Insurance Commissioner David Altmaier:
  — “We believe that the major incentive to the abuse that we have seen over the past few years is the one-way attorney fee statute,” Altmaier told a Senate committee in early April of 2017. “We are concerned that any reform that doesn’t meaningfully address the one-way attorney fee statute will fall very short of being effective.”
How are Companies Addressing AOB Issue

- AOB issues are sometimes compared to problems with fraudulent sinkhole claims from five years ago
  - Sinkhole problem was addressed from four directions – Pricing, Underwriting, Policy Language, Legislative
  - AOB is not a specific exposure that can be as readily addressed via pricing and underwriting
    - Rates in most affected territories are going up
  - Focus has been on policy language, policyholder education (“Call Citizens First”), and a legislative fix
  - More solutions are being attempted
    - Limits
    - Managed repair programs
AOB Policy Language Changes

- Multiple companies have tried different policy language that has been disapproved by the Florida Office of Insurance Regulation (OIR)
- In 2016 Citizens received approval for AOB language updates
  - Limited spending on emergency repairs
  - Prevented permanent work from beginning until insurer can inspect damage
  - Reduced the scope of repairs to just the damaged portions
- Similar language was subsequently adopted by several insurers
AOB Policy Language Changes

- There have been attempts to add further restrictions but they have not been allowed
  - Specifically, language that would require written consent from all “insureds” and “mortgagees” for an assignment to take place has been disapproved
  - FL law

- December 2017 - Security First Insurance Company lost a case in 5th District Court of Appeal (DCA) against the OIR that FL law would allow language requiring written consent of all “insureds”
  - Security First argued that Florida law only bars policy language requiring the insurance company’s consent for an assignment of benefits, not consent by the insured
Several companies have existing AOB policy language that is no longer being approved by the OIR.

June 2012 through June 2013 the OIR issued orders exempting certain forms from the standard review process:
- Filings were temporarily filed as informational with a notarized certification that they fully complied with current law.

October 2017 – 2nd DCA found in favor of ASI regarding dismissal of AOB claim due to failure to obtain written consent of mortgage holder:
- Decision was a “per curium affirmed” without any written explanation. Thus the case is not precedent that can be cited, and will not provide a basis for conflict jurisdiction with the Security First decision.
Ark Royal Insurance Company already has similar language to what Security First attempted to implement:

“no assignment of claim benefits, regardless of whether made before a loss or after a loss, shall be valid without the written consent of all insureds, all additional insureds and all mortgagee(s) named in this policy.”

September 2018 – Ark Royal’s language was tested in court and upheld in a case where the AOB was performed by one individual without written consent from the spouse or bank holding the mortgage.

Attorneys from both sides have filed notices requesting the Florida Supreme Court hear the case due to conflicting results in both cases.
Both significant court decisions have included comments about the legislature being the better place to address the public policy concerns associated with AOB.

For 6th straight year little progress was made on AOB legislation.

Last two years bills have passed in the house with industry and OIR support but failed to pass in the Senate.

Key features of the industry supported bills have included:

- Policyholder may rescind an assignment agreement for any reason within seven days of signing;
- Assignee must provide a copy of the assignment agreement to the insurer within three business days after the assignment agreement is executed or the date of repair work begins;
- Several fee provisions regarding administrative fees, check processing fees, referral fees;
- Provisions addressing “one-way attorney fee” system.
AOB in 2019

• No special reason to believe a legislative fix will happen in 2019 but there is typically more opportunity for bills to pass in non-election years
• Industry, along with OIR and other advocates, will likely continue push to educate the public and work toward a legislative fix
• Other options to mitigate losses will be considered such as managed repair or preferred vendor programs
• Citizens has a $10,000 limit on water claims not participating in Citizens’ Managed Repair Program and other companies are moving to lower limits on water claims
Assignment of Benefits:
Water Damage
Water Damage: Loss Cost
Water Damage: Loss Cost

![Graph showing the increase in water damage loss costs from 2007 to 2017. The graph includes an exponential fit trend line with a 8.5% trend.]
Water Damage: Loss Cost

![Graph showing Ultimate Loss Cost and Exponential Fit with slopes 8.5% and 11.3% from 2007 to 2017.](image-url)
Water Damage: Severity

Accident Year

Ultimate Severity


$0 $2,000 $4,000 $6,000 $8,000 $10,000 $12,000 $14,000 $16,000 $18,000
Water Damage: Severity

Accident Year
Ultimate Severity Exponential Fit (Trend = 3.4%)
Water Damage: Severity

Accident Year

Ultimate Severity

Exponential Fit (Trend = 3.4%)

Exponential Fit (Trend = 6.6%)

Accident Year

$0

$2,000

$4,000

$6,000

$8,000

$10,000

$12,000

$14,000

$16,000

$18,000


Ultimate Severity

Exponential Fit (Trend = 3.4%)

Exponential Fit (Trend = 6.6%)
Water Damage: Frequency

![Graph showing the frequency of water damage accidents over the years from 2007 to 2017. The x-axis represents the accident year, and the y-axis represents the ultimate frequency. The graph shows an overall increasing trend in frequency.](image)

- Accident Year:
  - 2007
  - 2008
  - 2009
  - 2010
  - 2011
  - 2012
  - 2013
  - 2014
  - 2015
  - 2016
  - 2017

- Ultimate Frequency:
  - 0.0%
  - 0.5%
  - 1.0%
  - 1.5%
  - 2.0%
  - 2.5%
Water Damage: Frequency
Water Damage:
Development Pattern Shifts
Water Damage: Reported Claim Development

Maturity (Age in Months)

CYs 2014 - 2017

CYs 2011 - 2013

0.0% 10.0% 20.0% 30.0% 40.0% 50.0% 60.0% 70.0% 80.0% 90.0% 100.0%
Water Damage: Closed Claim Development

Maturity (Age in Months)

CYs 2011 - 2013
Water Damage: Closed Claim Development

Maturity (Age in Months)

- CYs 2014 - 2017
- CYs 2011 - 2013
Water Damage: Reported Loss & DCC Development

Maturity (Age in Months)

Maturity: 0-96

CYs 2011 - 2013

Percentage Development:
0.0%
10.0%
20.0%
30.0%
40.0%
50.0%
60.0%
70.0%
80.0%
90.0%
100.0%

Pinnacle Actuarial Resources, Inc.

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Water Damage: Reported Loss & DCC Development

Maturity (Age in Months)

CYs 2014 - 2017
CYs 2011 - 2013
Water Damage: Paid Loss & DCC Development

Maturity (Age in Months)

CYs 2011 - 2013
Assignment of Benefits: Wind/Hail/Lightning
Wind/Hail/Lightning: Loss Cost

Accident Year

Ultimate Loss Cost


$0 $20 $40 $60 $80 $100 $120

$0 $20 $40 $60 $80 $100 $120


Accident Year

Ultimate Loss Cost
Wind/Hail/Lightning: Loss Cost

Accident Year

Ultimate Loss Cost

Exponential Fit (Trend = 26.4%)
Wind/Hail/Lightning: Loss Cost

Accident Year
Ultimate Loss Cost
Exponential Fit (Trend = 26.4%)
Exponential Fit (Trend = 17.4%)
Wind/Hail/Lightning: Severity

Accident Year

Ultimate Severity


$0 $2,000 $4,000 $6,000 $8,000 $10,000 $12,000 $14,000
Wind/Hail/Lightning: Severity

Accident Year
Ultimate Severity Exponential Fit (Trend = 9.1%)
Wind/Hail/Lightning: Severity

Accident Year

Ultimate Severity

Exponential Fit (Trend = 9.1%)

Exponential Fit (Trend = 12.9%)
Wind/Hail/Lightning: Frequency

![Graph showing frequency of accidents from 2007 to 2017](image)

- **Ultimate Frequency**

Accident Year:
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
Wind/Hail/Lightning: Frequency

Accident Year

Ultimate Frequency

Exponential Fit (Trend = 14.6%)

Exponential Fit (Trend = -9.1%)
By-Segment Comparison
By-Segment Comparison: Frequency/Claim Distr.

- Water Damage
- Wind / Hail / Lightning
- AOP
By-Segment Comparison: Loss Cost
Aggregate Non-CAT Loss Cost

![Graph showing the trend of Aggregate Non-CAT Loss Cost from 2007 to 2017. The graph includes lines representing Ultimate Loss Cost and Exponential Fits with trends of 5.8% and 9.1% respectively. The x-axis represents Accident Year, and the y-axis represents Ultimate Loss Cost.]
Hurricanes Irma and Michael
Reserving for Irma (and now Michael)

- Large storms in late 3rd quarter or 4th quarter are inherently difficult to make projections for at yearend
- Every major hurricane is different and losses for each one develop differently
- For Irma, some differences were apparent immediately
  - Hurricane Harvey impact
    - Scarcity of claims adjusters
    - Impact on demand for construction
  - Desire to close claims
- Yearend 2017 reserve analysis considerations
  - Focus was on impact to Direct and Assumed reserves as losses exceeded company retentions
  - Historical development patterns from prior named storms
  - Hurricane model projections
  - Greater emphasis to weekly claim reporting and claim payment results through yearend
  - Special attention given to higher than usual loss adjustment expenses
Reserving for Irma – Where we were wrong

• Impact of demand was even larger than expected
  – Hurricanes Maria, Irma, and Harvey led to shortage of contractors and supplies
  – Along with increased costs, lack of available resources sometimes led to more expensive fixes
• Efforts to respond to policyholders and close claims quickly in Fall of 2017 had unintended consequences
  – 2018 saw substantially more reopens and subsequent payments on closed claims than expected
• Ultimate loss projections for Irma on a Direct and Assumed basis have come in much higher in 2018, although not impacting held net amounts
Hurricane Paid Pattern Comparison

Maturity (Age in Months)

RAA 2004/2005 CATs

Irma
Reserving for Michael

• Michael came a month later in the Fall than Irma
• We will continue to monitor claim reporting and payments on a weekly basis and make comparisons to how Irma has developed
• We expect less impact from loss adjustment expenses and demand surge for Michael but it is still very early
• We will have more conversations with clients about how claims are being closed for Michael compared to Irma
Preparation for Year-End 2018
Methodology & Approach

• What is actuarial science?
  – “Driving forward while looking in the review mirror” – Unknown
  – Predicated on loss development triangles
  – More like distracted driving given AOB

• Communication with management will be critical
  – Discuss issues affecting loss projections
  – Changes in claims reserving practices
  – Changes in underwriting (e.g., policy provisions, geographic restrictions)

• Develop claim diagnostics – history may not be predictive of future experience
Methodology & Approach

• Supplement historical data with *relevant* insurance industry benchmarks

• Expand analysis segmentation
  – Dampens pervasive claim trends
  – Increase in reporting lag
  – Increase in settlement lag
  – Change in proportion of DCC to overall spend
  – Change in cause of loss distribution
  – Change in geographic concentration – think sinkholes (Pinellas and Hillsborough counties)
  – Increase in homogeneity can lead to decrease in credibility (predictive stability)
Methodology & Approach

• Initial expectations of loss cost and frequency for 2018
  – Typically rely on history to inform *a priori* estimates
  – Predictive stability of historical experience – enough relevant data “baked” into recent triangle diagonals?

• What about Hurricanes Irma and Michael?
  – Reinsurance Association of America (RAA) patterns
  – Catastrophe model expected losses
  – Counts and averages approach
Reasonable Property Reserve Ranges

- Historically
  - Derivation
    - Judgmentally selected range parameters
    - Stress testing – varying projection parameters
    - Statistical modeling – coefficient of variation and mean
  - Uniform range – true central estimate (normal distribution)
  - Reasonable range: ±5%
10 Year Industry Loss Development - % of loss est.

Long-tailed liability lines are more uncertain over long periods of time

Source: SNL Financial

Long-tailed liability lines are more uncertain over long periods of time.
Reasonable Property Reserve Ranges

• Historically
  – Derivation
    • Judgmentally selected range parameters
    • Stress testing – varying projection parameters
    • Statistical modeling – coefficient of variation and mean
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  – Reasonable range: ±5%

• Prospective
  – Derivation
    • Trended loss development factors
    • Risk margins – confidence levels
  – Left-skewed/negative skewed distribution – ex: -5% to +20%
  – Subject to auditor and regulator approval
Rate Activity
Rate Activity

- Reinsurance costs have come down in recent years
- October 2013 letter from CFO Atwater
  - “Why have rates not come down?”
- Through 2015 rates were generally declining
  - Loss trends had improved have been deteriorating
  - Some indications remained negative despite positive loss trends due to decreasing reinsurance costs
  - As reinsurance costs level off and water losses are driving up loss trends
All Perils: Approved Change by Effective Date
Managed Repair Programs
Managed Repair Programs

• What are they?
  – Insurer provides incentives for policyholders to use insurer-approved contractors to perform repairs to damaged property covered under the policy
  – Different than the insurer’s right to repair or insurer making an election to repair
    • An election to repair can be made by insurer under standard policy language and creates a new contract where policy limits do not apply
Managed Repair Programs – History in Florida

• Common in other lines of business
  – Health Insurance – HMOs, PPOs
  – Auto Insurance – Glass and Collision repair
  – Insurer provides incentives for policyholders to use insurer-approved contractors to perform repairs to damaged property covered under the policy

• Growth in Florida
  – 2008 – People’s Trust Insurance Company formed with focus on managed repair
  – 2010 – Managed repair program filings with OIR
  – Citizens
    • Introduced managed repair program with multiple vendors in 2017
    • Implemented non weather water limit of $10,000 in 2018 for claims not using the managed repair program
Managed Repair Program Benefits

• For the Insured
  – Insurer may provide incentives for using managed repair vendors such as premium discount, deductible credit, or increased coverage
  – Convenience
  – Insurer guarantees vendor work

• For the Insurer
  – Better control of claims cost and litigation risk
  – Another tool to fight claim practices that lead to higher insurance costs overall; specifically related to water claims and AOB
Questions
Join Us for the Next APEX Webinar

Tuesday, November 27
2:00 p.m. ET
Registration is Open

Using Telematics Effectively for Commercial Fleets

Roosevelt Mosley  Chris Carver  Yiem Sunbhanich
Final Notes

• We’d like your feedback and suggestions
  • Please complete our survey

• For copies of this APEX presentation
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Thank You for Your Time and Attention

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