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
• Preparation for Year-End 2017
• Miscellaneous
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
“Our” Definition
Florida’s Prior Definition
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

- Catastrophes
- Varying trends and development patterns by peril
- Assignment of Benefits (AOB)
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
Prior Analysis Segmentation

Accident Year

Analysis Segment
All Other Perils (AOP) Sinkholes Catastrophes

Analysis Segment
Current Analysis Segmentation

- Water Damage
- Wind / Hail / Lightning
- New AOP
- Sinkholes
- Catastrophes

Accident Year:
- 2001
- 2002
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
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**

Catastrophes, Sinkholes, Water Damage, Wind / Hail / Lightning
Loss Cost: By Cause of Loss (ex-Catastrophes)

Insurers commenced aggressive defense stance, implemented restrictive policy language, and offered buyback coverage.
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Loss Cost: By Cause of Loss (ex-Catastrophes)

- **Insurers commenced aggressive defense stance, implemented restrictive policy language, and offered buyback coverage**
- **Florida Senate Bill 408 passed on 2/22/2011**

![Graph showing loss cost by cause of loss from 2002 to 2016, with distinct lines for Sinkholes, Water Damage, and Wind / Hail / Lightning.](image)
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Florida Senate Bill 408 passed on 2/22/2011.
Assignment of Benefits:
Market/Regulatory Response
Sample Policy Provisions

• Georgia policy language
  – **Conditions – Assignment:** *Assignment of this policy will not be valid unless we give our written consent*
  – **Amendment – Conditions – Assignment:** *Assignment of any claim or this policy will not be valid unless we give our written consent*

• Florida policy language
  – Prior: most companies only specified assignment conditions related to the policy, not the claim
  – Current: adopt language comparable to Citizens Property Insurance Corporation (Citizens)

• AOB is not a type of claim, rather a mechanism with which to report and address claims
How are Companies Addressing AOB Issue

• AOB issues are often 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 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
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
- 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
AOB Legislative Updates - 2017

• HB 1421
  – HB 1421 passed the House in 91-26 vote
  – Failed to pass in Senate
  – Key features of the bill 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;
    • Assignee must notify the policyholder and the insurer that litigation against the insurer will be filed.
    • OIR to have insurers report data on trends in AOB and related litigation
    • Referral fee limits of $300
    • Provisions addressing “one-way attorney fee” system
AOB Legislative Updates - 2017

• Senate Bills
  – SB 1038
    • Drafted by OIR and supported by insurance industry
    • Kept AOB consumer protections, but addressed “one-way attorney fee” system
    • Left off agenda by Senate Banking and Insurance Committee
  – SB 1218
    • Drafted by committee member
    • Opposed by OIR due to lack of addressing the “one-way attorney fee” system
    • Included restrictions on insurance companies ability to use legal fees in support of rate changes
    • Included referral fee limits of $750
    • Not supported by OIR and strongly rebuked in Wall Street Journal
AOB Legislative Updates

• 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. “We are concerned that any reform that doesn’t meaningfully address the one-way attorney fee statute will fall very short of being effective.”
Insurance Commissioner David Altmaier:

“There will continue to see homeowners’ insurance companies raise their rates for our consumers in a best-case scenario, and in a worst-case scenario just simply stop offering their products in certain regions of the state,” Insurance Commissioner David Altmaier told the Florida Cabinet last month.

AOB in 2018

- SB 62 was filed in August – Language is nearly identical to SB 1038 previously drafted by OIR
- 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 filed a $10,000 limit on water claims not participating in Citizens’ Managed Repair Program
Assignment of Benefits: Water Damage
Water Damage: Loss Cost

Accident Year

Ultimate Loss Cost


$0 $50 $100 $150 $200 $250 $300 $350
Water Damage: Loss Cost

Accident Year

Ultimate Loss Cost

Exponential Fit (Trend = 8.5%)
Water Damage: Loss Cost

Accident Year

Ultimate Loss Cost

Exponential Fit (Trend = 8.5%)

Exponential Fit (Trend = 11.5%)
Water Damage: Severity

Accident Year
Ultimate Severity


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

Accident Year

Ultimate Severity
Exponential Fit (Trend = 3.9%)
Water Damage: Severity

[Graph showing water damage severity over accident years from 2007 to 2016, with lines indicating exponential fits for different trend percentages.]
Water Damage: Frequency

Accident Year

Ultimate Frequency
Exponential Fit (Trend = 4.7%)
Water Damage: Frequency

Accident Year

Ultimate Frequency
Exponential Fit (Trend = 4.7%)
Exponential Fit (Trend = 5.6%)
Water Damage:
Development Pattern Shifts

Commitment Beyond Numbers
Water Damage: Reported Claim Development

Maturity (Age in Months)

CYs 2011 - 2013
Water Damage: Reported Claim Development

Maturity (Age in Months)

CYs 2014 - 2016

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)

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

0 6 12 18 24 30 36 42 48 54 60 66 72 78 84 90 96

CYs 2014 - 2016
CYs 2011 - 2013
Water Damage: Reported Loss & DCC Development

[Graph showing maturity (age in months) from 0 to 96 with percentage development from 0% to 100%, labeled "CYs 2011 - 2013"]
Water Damage: Reported Loss & DCC Development

Maturity (Age in Months)

CYs 2014 - 2016

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

Maturity (Age in Months)

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%

0 6 12 18 24 30 36 42 48 54 60 66 72 78 84 90 96

Pinnacle Actuarial Resources, Inc.
Water Damage: Paid Loss & DCC Development

Maturity (Age in Months)

CYs 2014 - 2016

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

Accident Year

Ultimate Loss Cost

Wind/Hail/Lightning: Loss Cost

Accident Year

Ultimate Loss Cost

Exponential Fit (Trend = 38.1%)
Wind/Hail/Lightning: Loss Cost

Accident Year
Ultimate Loss Cost
Exponential Fit (Trend = 38.1%)
Exponential Fit (Trend = 31.2%)
Wind/Hail/Lightning: Loss Cost

![Graph showing the increase in ultimate loss cost over accident years with exponential fits for different trends.]

- Orange line: Ultimate Loss Cost
- Black line: Exponential Fit (Trend = 38.1%)
- Purple line: Exponential Fit (Trend = 31.2%)
- Green line: Exponential Fit (Trend = 11.4%)
Wind/Hail/Lightning: Severity

Accident Year

Ultimate Severity

$0
$2,000
$4,000
$6,000
$8,000
$10,000
$12,000


Ultimate Severity
Wind/Hail/Lightning: Severity

Accident Year

Ultimate Severity Exponential Fit (Trend = 9.7%)
Wind/Hail/Lightning: Severity

Accident Year vs. Ultimate Severity

- Ultimate Severity
- Exponential Fit (Trend = 9.7%)
- Exponential Fit (Trend = 7.0%)
Wind/Hail/Lightning: Frequency

Accident Year

Ultimate Frequency

Wind/Hail/Lightning: Frequency

Accident Year

Ultimate Frequency

Exponential Fit (Trend = 24.4%)

Exponential Fit (Trend = 28.9%)
By-Segment Comparison
By-Segment Comparison: Loss Cost

![Graph showing loss cost comparison for different types of damage over the years. The x-axis represents the accident year from 2007 to 2016, and the y-axis represents the loss cost ranging from $0 to $350. The graph compares Water Damage, Wind / Hail / Lightning, and AOP.]
By-Segment Comparison: Frequency/Claim Distr.

- Water Damage
- Wind / Hail / Lightning
- AOP

Accident Year

Preparation for Year-End 2017
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 2017
  – Typically rely on history to inform *a priori* estimates
  – Predictive stability of historical experience – enough relevant data “baked” into recent triangle diagonals?

• What about Hurricane Irma?
  – 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%
Long-tailed liability lines are more uncertain over long periods of time

Source: SNL Financial
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%

• 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
Miscellaneous
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 but deteriorated
  – Some indications remained negative despite positive loss trends due to decreasing reinsurance costs
  – Reinsurance costs have leveled off and water losses are driving up loss trends
Rate Activity

Florida Homeowners Approved Rate Changes by Date Filed
Private Flood Coverage

- Historically Florida has paid in more than their share of losses into NFIP
- In 2014 and 2017 Florida passed legislation to allow private insurers the ability to provide coverage
  - Rate Filings through 10-1-25 on an expedited basis (actuarial support subject to audit)
  - FL Commission on Hurricane Loss Projection Methodology to develop standards for reviewing flood models by 7-1-17
  - Flood coverage must be equal to NFIP at minimum
Private Flood Coverage

- Multiple companies have entered into the market NFIP policy count in FL has declined
  - In June American Integrity became the 9th FL domiciled company to offer flood coverage that included the FLOIR certification
  - As of June 30, 2017 FL private flood market had over 20,000 policies
    - NFIP policy count as of July 31, 2017 was over 1.7 million
  - Harvey led to push in flood policy sales at the end of August but many (including NFIP) would not have been in effect for IRMA due to 30 day waiting period
- As of September 21, 2017 there were 16,786 flood claims in Florida due to IRMA
Questions
Join Us for the Next APEX Webinar

Captive Insurance Hot Topics

Join Pinnacle Principals Rob Walling and Derek Freihaut as they discuss trending captive insurance issues including risk transfer, risk distribution and total cost of risk, as well as approaches to address them.
Final Notes

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

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Thank You for Your Time and Attention

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