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Man-Made Catastrophe Churns as Property Insurance Markets Deteriorate

On the eve of the 30th anniversary of Hurricane Andrew's landfall in Florida, one of the nation's costliest and most consequential natural disasters in history, the American Property Casualty Insurance Association (APCIA), the Reinsurance Association of America (RAA), the Association of Bermuda Insurers and Reinsurers (ABIR), and Robert Hartwig, PhD, CPCU published a joint paper, "

It's Not Just the Weather: The Man-Made Crises Roiling Property Insurance Markets." The paper examines how the tragedies from Hurricane Andrew ultimately paved the way for positive community safety innovations through modern building codes and enhanced regional mitigation initiatives. However, thirty years later, there are new, growing property insurance crises in many states resulting from man-made events—legal system abuse, government interference, and fraud.

"Hurricane Andrew forever changed the way American communities prepared for natural disasters," said Robert Hartwig, PhD, CPCU, and clinical associate professor of finance and director of the Risk and Uncertainty Management Center at the University of South Carolina. "At the time, it was the costliest natural disaster in the United States with an estimated \$27.3 billion in insured losses. In its aftermath, communities and states ultimately instituted stronger building codes and provided more investment in resiliency – both of which have undoubtedly saved countless lives."

"Now, 30 years later, we are experiencing a new major catastrophe in states such as Florida, California, and Louisiana, except this one is man-made," said David A. Sampson, president & CEO of APCIA. "Unchecked plaintiff bar tactics, legal system abuse, fraud, and misguided government policies are having a significant impact on the availability and affordability of insurance for American families, individuals, and businesses. For example, collectively these factors have driven the average Florida homeowner's insurance policy to nearly \$3,000 in 2022, roughly twice the U.S. annual average."

"Unfortunately, this has all occurred even though Florida has not experienced a direct hit from a hurricane since 2018, underscoring the impact of disruptions these man-made forces have on the marketplace," said Frank Nutter, president of the RAA. "In Florida alone, seven insurers went insolvent in the last two years and 14 other companies have stopped writing new policies to avoid similar stability risks. According to a report from the **state's insurance regulator**, Florida accounted for 79 percent of the nation's homeowners' insurance claim lawsuits, while making up only nine percent of the nation's homeowners' insurance claims. While Florida's governor and legislature implemented positive reforms during a special session earlier this year that are a step in the right direction, it will take time and additional reforms to stabilize Florida's volatile property insurance market."

A 2021 study titled Florida's P&C Insurance Market: Spiraling Toward Collapse, by Guy Fraker, a risk consultant for Cre8tFutures, found that insurers paid \$15.3 billion for insurance lawsuits in Florida from 2013 to 2020, of which 71 percent funded plaintiff attorney fees, 21 percent represented defense costs and *only 8 percent* went to insureds.

"Insurers are also facing increasing challenges in managing risk due to government mandates and interference," said John Huff, president & CEO of the ABIR. "Insurers must be given flexibility to collect adequate premiums reflective of the exposure. When the private market is allowed to function in this way with less volatility and counterproductive constraints, this leads to increased competition and ultimately greater consumer choice."

"Fraud related to property insurance claims is another issue that costs policyholders and impacts the marketplace," said Nutter. "According to data from the Federal Bureau of Investigation, the cost of non-health-related insurance fraud is estimated to be more than \$40 billion per year, which can translate to an additional \$400 to \$700 annually in insurance premiums for the average U.S. family."

"Insurers are an essential part of society as they provide the financial protection needed to help families, businesses, and communities prepare for—and recover from—the unexpected," said Sampson. "As natural disasters continue to increase in frequency and severity due to climate change, state leaders need to act on policies that will help create a healthy and sustainable insurance marketplace so that consumers can continue to protect the things that matter most to them. Because that's what matters most to us."

"To fix broken property insurance markets in states like Florida, California, and Louisiana, insurers and reinsurers urge state lawmakers and regulators to focus on addressing the underlying issues roiling markets and harming consumers, including implementing legal system reforms and anti-fraud measures, as well as promoting regulatory stability and disaster mitigation to help reduce future losses," said Nutter.

About:

The Reinsurance Association of America is the leading trade association of property and casualty reinsurers doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. The RAA also has life reinsurance affiliates and insurance linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies.

The Association of Bermuda Insurers & Reinsurers (ABIR) represents Bermuda's major property and casualty insurers and reinsurers doing business in 150 countries. ABIR members have contributed a significant \$8.5 billion to the Bermuda economy over the decade ended 2020. Bermuda is an internationally recognized center of global expertise on underwriting for catastrophe, climate, cyber, mortgage & credit risk transfer products, along with other specialty insurance and reinsurance.

The American Property Casualty Insurance Association (APCIA) is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

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