

Commissioner's Presentation Cabinet Meeting

September 15, 2009

Thank you, Governor, for the opportunity to once again address the Financial Services Commission about the status of the Florida property insurance market; specifically about the 29 newly admitted writers since 2006.

The 29 newly admitted writers now report 747,714 policies in force in Florida as of June 30, 2009 and report an increase in policyholder surplus from the initial \$607 million to \$625.8 million. However, of the 21 companies with policies in force, only six experienced underwriting gains during the first six months of the year, while 15 companies have experienced underwriting losses. This is generally consistent with the financial performance of other residential property insurance writers in Florida, and around the nation.

Of the 210 writers with a significant presence in the residential markets in Florida, 150 have shown increases in their policyholder surplus, while 60 companies have reported declines during the first six months of the year. Of these companies, 84 posted underwriting gains, while 102 posted underwriting losses based on second quarter financial filings. It should be noted there are 24 companies that have pooling arrangements with reinsurers and do not directly report underwriting gains or losses. Although this analysis features 210 writers in Florida, the results are national results as financial statements are consolidated for all operations in the United States. A list of these 210 companies and their financial results was provided to the Financial Services Commission yesterday.

As with all types of businesses in general, new insurance writers in Florida frequently experience initial losses, which are evident in the financial statements of our 29 newly admitted writers. These losses may be due to start-up costs, organization of an agent workforce, and other overhead costs including marketing expenses.

We have met or corresponded with each domestic company that has reported significant reductions in policyholder surplus. These companies are experiencing problems endemic to the overall property insurance marketplace. Most notably, company representatives have informed us their companies have experienced an increase in losses due to:

- 1) Premium reductions from the full implementation of mitigation discounts
- 2) Fraud
- 3) Increased reinsurance costs
- 4) Replacement cost methodology
- 5) Reported sinkhole claims

The companies have indicated the majority of these problems have been exacerbated by the weakening economy. The Office has taken action with respect to individual companies

determined to have financial problems. These actions may include a corrective action plan, suspension or revocation of a certificate of authority, administrative supervision or a referral for receivership.

The 2009 Challenges in the Property Insurance Market

The obstacles we face today are very different than the spiraling reinsurance costs in 2006 that were largely ameliorated by House Bill 1A. An underlying factor influencing the length and breadth of the current environment is the economic downturn, especially as it pertains to the housing market. If we observe extended setbacks in the housing market including additional foreclosures and vacated homes, we will experience financial problems in the insurance industry irrespective of hurricane storm damage. On the other hand, an economic recovery may help reduce many of the problems property insurers are now encountering. We will continue to be vigilant in monitoring the financial condition of these insurance companies, and taking appropriate action when necessary.