



## FLORIDA PROPERTY INSURANCE

*No Hurricanes.*

*No Profits.*

*No One Happy.*

by Joseph L. Petrelli, ACAS, MAAA, FCA  
President  
**Demotech, Inc.**

In the 1980s, Columbus, Ohio had a mayor by the name of Dana (Buck) Rinehart. He was a tireless spokesperson for the City of Columbus. Some viewed him as somewhat controversial. I recollect him saying something along the lines of 'If everyone is a bit upset with me, I am probably doing my job well'. If I apply this perspective to the property insurance marketplace in the State of Florida, the State of Florida Office of Insurance Regulation is doing its job.

Consumer advocates, some journalists and others cited the quiet 2006 hurricane season as rationale for decreasing property and Homeowners insurance rates in Florida. The Office of Insurance Regulation utilized hearings to discuss rate increases that it believed to be excessive. Insurance companies are filing significant rate increases based upon historical premium and loss experience adjusted to reflect anticipated conditions. Everyone seems a bit upset with the situation.

### **ARE FLORIDA HOMEOWNERS INSURANCE RATES EXCESSIVE?**

Are profits in the Florida Homeowners insurance marketplace excessive? Are the residents of Florida paying too much for Homeowners insurance? At Demotech, Inc., we believe the answer to each of these questions is No. Here is Demotech's rationale.

### **DEMOTECH'S ANALYSIS**

We reviewed the net after-tax profits of sixty-nine insurance companies that wrote Homeowners insurance. Each of the insurers operated in a single state. Twenty-two operated exclusively in Florida. Forty-seven operated exclusively in states other than Florida. Each company wrote at least 70% of its direct written premium in the Homeowners insurance line of business. None of the companies wrote in two states, and none of the companies wrote more than 30% of its direct written premium in a line of insurance other than Homeowners.

We viewed their net operating results over the period 2001 to 2005, 2003 to 2005 and 2005 by itself. That is, we looked at the latest complete year of operations, the composite of the latest three years of operations and a composite of the latest five years of operations. We measured net after tax income as a percentage of admitted assets, cash and invested assets and surplus as regards policyholders. The results are summarized below.

### **THE RESULTS OF OUR ANALYSIS**

In each period, for each measurement, the net after-tax profit or loss of the insurers exclusively dependent on Florida Homeowners insurance lagged the net after-tax profit of insurers dependent on Homeowners insurance written in other states. If Florida had excessive Homeowners insurance rates, this analysis would have shown the opposite result.

## ABOUT THE AUTHOR

We acknowledge that there are insurance companies writing Homeowners insurance in Florida that write business in other states and write other lines of insurance. We also acknowledge that a large percentage of the Florida Homeowners insurance marketplace is written by carriers not considered in our analysis. However, if there was excessive profit in the Florida Homeowners insurance marketplace, our analysis of companies writing nothing but Florida Homeowners and property insurance versus companies writing nothing but homeowners and property insurance in other states should have produced a different result. We respectfully submit that this analysis implies that Florida Homeowners insurance rate levels are not yet where they need to be.

The State of Florida Office of Insurance Regulation addresses the needs of a variety of stakeholders and interests. Some constituencies may think they move too fast while others think they move too slow. Some believe they readily approve Homeowners rate revisions, others think they may be suppressing rate levels. The data that we analyzed indicated that single state Homeowners insurance companies can be profitable as long as the single state is not Florida.

We surmise that the Office of Insurance Regulation has considered this predicament in its deliberations and considerations. The latest year's result, 2005, shows modest improvement over the period 2003 to 2005, and is comparable to the longer results of 2001 to 2005, both of which included the active storms of 2004. Because of the relatively calm 2006 Hurricane season, additional incremental improvement in the relative profitability of Florida domiciled insurers might continue to emerge in 2006.

Dana Rinehart would be proud.

Joseph L. Petrelli is the President and Founder of Demotech, Inc., a Columbus, Ohio based financial analysis and actuarial services company. From 1996 to date, Demotech has assigned Financial Stability Ratings® to the majority of the Florida domiciled Homeowners insurance writers.

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**Data Source:** The National Association of Insurance Commissioners, Kansas City, Missouri, by permission. The foregoing information has been derived from OneSource, a Highline Data product. The NAIC and Highline Data do not endorse any analysis or conclusion based upon the use of its data.

Demotech, Inc. makes no assertions as to the completeness or accuracy of this information.



## ABOUT DEMOTECH, INC.

Since 1985, Demotech, Inc., a Columbus, Ohio based financial analysis and actuarial services firm, has been serving the insurance industry, providing independent opinions on the financial stability of Property and Casualty insurers and Title insurance underwriters.

Demotech offers services including statements of actuarial opinion and pricing assistance, strategic market and product analysis, state filings assistance, as well as financial valuations. Demotech was the first company to have its rating process formally reviewed and accepted by Fannie Mae, Freddie Mac and HUD.

### SERIOUS ABOUT SOLVENCY™

In 1992, Demotech became the first company to review the Title insurance industry and publish independent opinions of underwriters' financial strength. Since 1992, Demotech has presented Financial Stability Ratings® for virtually all Title underwriters. No other organization reviews more underwriters or has been providing Financial Stability Ratings® longer.

### About Demotech Performance of Title Insurance Companies

With the release of the 2007 edition of *Demotech Performance of Title Insurance Companies*, Demotech presents the latest volume of the most comprehensive Title industry resource available, which summarize the financial information for 91 Title insurance underwriters. These included underwriters represent more than 99% of the Title industry's premium activity.

In keeping with the publication's nineteen-year tradition, the 2007 edition features detailed statutory financial statements, market share summaries, financial ratios and analysis, along with the current Financial Stability Rating® and corporate contact information for each underwriter. This edition also introduces more than 100 pages of new content and publication enhancements, including *Underwriter Dashboard*, *Five-Year Trend Reports* as well as the expansion and refinements of the financial ratios.

*Underwriter Dashboards* are full-page reports containing underwriter corporate information along with graphical summaries of financial, operating and underwriting performance results, presenting up to five years of financial data. *Five-Year Trend Reports* graphically present up to five years of Direct Premiums Written detail by NAIC Group, individual underwriter and jurisdiction. The Financial Ratios and Analysis feature four new reports including the presentation of the first industry-wide evaluation of *Schedule P Loss and Loss Adjustment Expense (LAE) Reserve Development*, which assesses the accuracy of company reserving practices. The Financial Ratios and Analysis have also been enhanced to include five years of summary results, when available, as well as to include ratio indexes to facilitate identification of underwriters throughout the section.

## CORPORATE MILESTONES

- 1985** Founded by Joseph L. Petrelli and Sharon M. Romano to offer actuarial services.
- 1986** First to issue Financial Stability Ratings® (FSRs) for health maintenance organizations (HMOs).
- 1987** First to issue FSRs for public entity liability self-insured pools through the development of our Management Audit Process.
- 1989** First to have Property and Casualty insurance company rating process formally reviewed and accepted by Fannie Mae. An FSR of A or better eliminates the need for property insurance cut-through endorsements.
- 1990** First to have Property and Casualty insurance company rating process formally reviewed and accepted by Freddie Mac.  
Began offering Property and Casualty insurance companies and Title underwriters loss cost analysis and rate, rule and form filing assistance.  
Responded to the National Association of Insurance Commissioners (NAIC) requirements for Property and Casualty insurers to submit Statements of Actuarial Opinion related to loss and loss adjustment expense reserves concurrent with the 1990 Property and Casualty annual statement.
- 1992** First to analyze the financial position of each Title underwriter.
- 1993** First to have Property and Casualty insurance company rating process formally reviewed and accepted by HUD.
- 1994** Fannie Mae issued Title underwriting guidelines, naming Demotech as an approved Title underwriter rating service.
- 1995** First to promulgate Commercial Real Estate Recommendations (CRERs) to provide additional financial due diligence of Title underwriters involved in larger real estate transactions.
- 1996** Contacted by the Florida Office of Insurance Regulation (OIR) when the property insurance market encountered newly established insurers that did not meet traditional rating requirements. Working with the Florida OIR, Demotech developed evaluation procedures for the assignment of FSRs to newly formed Property and Casualty companies.  
Coordinated the first seminar regarding the implementation of Statements of Actuarial Opinion for Title insurance companies on behalf of the Conference of Consulting Actuaries and in cooperation with the American Land Title Association (ALTA).
- 1999** Co-authored the Commerce Clearing House publication describing the evolution of the Canadian Title insurance industry.
- 2001** Completed the initial loss and loss adjustment expense review of the Iowa Finance Authority – Title Guaranty Division.
- 2002** Revitalized the Ohio Title Insurance Rating Bureau (OTIRB).
- 2003** Assisted the North Carolina Title Insurance Rating Bureau with the development and filing of Closing Services insurance product.  
Assisted the OTIRB with its first rate revision since 1980.
- 2004** Introduced *Demotech Performance of Title Insurance Companies* and *Quarterly Updates*.
- 2005** Celebrated 20<sup>th</sup> anniversary, continuing to grow and serve Property and Casualty insurers and Title underwriters throughout the industry.  
HUD approved Demotech's rating process for professional liability insurance under Notice H04-15, Professional Liability Insurance for Section 232 and 223(f) Programs.
- 2006** Joseph L. Petrelli, ACAS, MAAA, FCA, authored *What We've Got Here Is a Failure to Communicate – How Traditional Financial Reporting Contributes to Misunderstanding of Title Insurance Loss Activity*. This discussion expounds upon the ramifications of Title underwriters' required conformance with Property and Casualty financial reporting standards and how industry comparisons fail to recognize fundamental differences between Title and Property and Casualty coverage characteristics.
- 2007** Designated the Official Research Partner of *Insurance Journal*, providing research, actuarial and statistical support and collaborating on special joint reports pertaining to insurance industry performance and financial results.