



The Ship Continues to Take-On Water....

Will The Latest Florida Bill Help Navigate the Turbulent Seas?

Executive Summary

- According to a recent report produced by A.M. Best Company, hurricane losses were not the primary cause of Florida's troubled property market.
 - The deterioration in performance was caused by greater loss frequency, higher reinsurance costs, escalating litigation costs, and building codes and laws.
 - April 2021 – March 2022: **Five** Florida homeowners' insurance carriers were ordered into receivership for purposes of liquidation. Another company was downgraded by Demotech and may soon face a similar fate.
 - In response to poor loss performances, insurers have been filing for significant rate increases, changing their underwriting requirements and aggressively non-renewing existing policies.
 - **The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)** will not accept a property insurance policy that limits or excludes coverage for windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement.
 - **May 25, 2022 - The Florida Legislature passed bill SB 2-D**, which introduces several measures to address access and affordability of property insurance, and to mitigate insurance fraud in Florida's property insurance market.
 - **Authorizes a \$2 billion Reinsurance to Assist Policyholders (RAP)**
 - **My Safe Florida Home Program** - \$150 for hurricane mitigation inspections and matching grants for the performance of hurricane retrofitting on **homestead single family homes with a value of \$500,000 or less** located in the wind-borne debris region.
 - **Contractor Solicitation of Roof Claims** - Prohibits contractors from encouraging or inducing a consumer to make a roof claim unless they explain that the consumer is responsible for the payment of any deductible.

- **Separate Roof Deductibles** - Allows insurers to include a separate roof deductible (up to 2% of the Dwelling Limit or 50% of the cost to replace the roof) if a corresponding premium credit is included.
- **Insurer Underwriting** - Prohibits an insurer from refusing to issue or renew a homeowners policy with a roof that is less than 15 years old solely because of the age of the roof.
 - If the roof is at least 15 years old, an insurer must allow for a roof inspection before requiring the replacement of the roof as a condition of issuing or renewing a homeowner's policy.
 - The insurer may not refuse to issue or renew if an authorized inspector indicates that the roof has **five years or more** of useful life.
- **Assignment of Benefits (AOB)** - Revises the definition of "assignment agreement" to include assignments executed by a party that inspects the property, clarifies that public adjuster fees are not an assignment agreement, and clarifies the requirement to provide a **Notice of Intent** to Initiate Litigation before filing suit.
 - Assignment agreements may occur, but the assignee vendor (i.e. roofing contractors) will no longer be able to recover attorney fees in suits against an insurer.
 - Requires that a valid AOB must specify that the assignee will hold harmless the assignor from all liabilities, including attorney fees.
- **Attorney Fees / Fee Multipliers** - May only be awarded under rare and exceptional circumstances with evidence that competent counsel could not be hired in a reasonable manner.
- The bill's measures will **not** impact the market immediately, so residents and new home buyers are scrambling to find competitively priced insurance solutions.
- **Sentry Insurance Advisors** focuses clients on three primary risk management factors, as we work to secure competitively priced holistic insurance solutions.
 - **Financial Stability** – Carriers' long-term stability is directly tied to their financial balance sheet, their reinsurance structure, and their underwriting risk selection.
 - **Policy Language** –Homeowners and condominium policies provide property **and** personal liability coverage. These policies protect personal assets, far beyond the replacement of a residence.
 - **The Cost of Underinsurance** – Saving money is always beneficial, until the ultimate price is paid at the time of claim. Underinsuring your dwelling or condo can be the most-costly insurance decision you can make.



The Ship Continues to Take-On Water....

Will The Latest Florida Bill Help Navigate the Turbulent Seas?

Over the past several years the Florida homeowners' insurance market would best be described as 'turbulent.' Insurance carriers have struggled to produce profitable results and residents have been overrun with rate increases and cancellation notices. According to a recent report produced by A.M. Best Company, hurricane losses were not the primary cause of Florida's troubled property market. The deterioration in performance was caused by greater loss frequency, higher reinsurance costs, escalating litigation costs, and building codes and laws.

Carriers Are Sinking and Taking Desperate Measures

In response, insurers have been filing for significant rate increases, changing their underwriting requirements and aggressively non-renewing existing policies. However, there have been several cases where companies haven't been able to survive after several years of troubling combined and expense ratios.

- April 14, 2021 - **American Capital Assurance Corporation (AmCap)** was ordered into receivership for purposes of liquidation. The company had approximately 2,300 in-force policies at the time of receivership.
- July 28, 2021 - **Gulfstream Property and Casualty Insurance Company**, was ordered liquidated. The company had approximately 45,000 in-force policies at the time of receivership.
- February 25, 2022 - **St. Johns Insurance Company** was ordered into receivership for purposes of liquidation. The company writes homeowners multi-peril, commercial multi-peril, fire, allied lines, and inland marine coverage in Florida and South Carolina.
- March 14, 2022- **Avatar Property and Casualty** was ordered into receivership for purposes of liquidation.
- March 29, 2022 - Demotech withdrew the rating previously assigned to **Lighthouse Property Insurance Corporation and Lighthouse Excalibur Insurance Company**. Despite a substantial capital contribution in the fourth quarter of 2021, their capitalization fell below what was needed to sustain financial stability ratings at the A level.

- May 5, 2022 - Demotech downgraded **FedNat** from “A exceptional” to “S Substantial.” The rating indicates that the insurer still has substantial resources and stability and is not in imminent danger of collapsing. Demotech attributed the downgrade partly due to losses in Louisiana and Texas, after a massive winter storm and Hurricane Ida in 2021.

“Not On My Watch”

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) provide liquidity, stability, and affordability to the mortgage market by buying mortgages from lenders and either holding the mortgages in their own portfolios or packaging the mortgages into mortgage-based securities for purposes of selling in the secondary mortgage market.

Fannie Mae will not accept a property insurance policy that limits or excludes coverage for windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement. The borrower may not obtain a property insurance policy that includes such limitations or exclusions unless they can show proof of an additional policy issued by another insurer that provides adequate coverage for the limited or excluded peril, or from an insurance pool that the state has established to cover the limitation or exclusions.

For first-lien residential mortgages, Fannie Mae requires coverage equal to the lesser of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- The unpaid principal balance of the mortgage, as long as it at least equals the minimum amount (80 percent of the insurable value of the improvements) required for compensating damage or loss on a replacement cost basis.

Freddie Mac will not accept a property insurance policy that excludes coverage for loss or damage from fire, lightning, and other perils, including windstorm, hail, explosion, riot, civil commotion, damage by aircraft, damage by vehicles, and damage by smoke, covered within the scope standard extended coverage. The borrower may not obtain a property insurance policy that includes such limitations or exclusions unless they can show proof of an additional policy issued by another insurer that provides adequate coverage for the limited or excluded peril, or from an insurance pool that the state has established to cover the limitation or exclusions.

For 1-4 family residential properties, Freddie Mac requires coverage at least equal to the higher of the following, not to exceed the replacement cost of the insurable improvements:

- The unpaid principal balance of the mortgage; or

- 88% of the full replacement cost of the insurable improvements

So, many Florida homeowners, who maintain personal mortgages, have been left scrambling as their lenders receive cancellation notices due to carrier liquidation or underwriting efforts to reduce carriers' exposure (i.e. roof exclusions, water damage exclusions, etc.). Many have found it increasingly difficult to secure competitive coverage terms that meet their lenders' insurance requirements and fit their personal expense budgets.

Will SB 2-D Help Right the Ship?

May 25, 2022 - The Florida Legislature passed bill SB 2-D, which introduces several measures to address access and affordability of property insurance, and to mitigate insurance fraud in Florida's property insurance market.

- **Reinsurance to Assist Policyholders (RAP) Program** - Authorizes a \$2 billion dollar reimbursement layer of reinsurance for hurricane losses directly below the mandatory layer of the Florida Hurricane Catastrophe Fund (FHCF). All eligible insurers must participate in the program.
- **My Safe Florida Home Program** - Appropriates \$150 million from the General Revenue Fund to the Department of Financial Services' My Safe Florida Home Program to provide hurricane mitigation inspections and matching grants for the performance of hurricane retrofitting on **homestead single family homes with a value of \$500,000 or less** located in the wind-borne debris region set forth in the Florida Building Code
- **Contractor Solicitation of Roof Claims** - Prohibits contractors from making written or electronic communications that encourage or induce a consumer to contact a contractor or public adjuster for the purposes of making a property insurance claim for roof damage unless such solicitation provides notice that the consumer is responsible for the payment of any deductible. It is now considered insurance fraud, punishable as a third-degree felony, for a contractor to pay or waive an insurance deductible. It is now insurance fraud, punishable as a third-degree felony, to intentionally file an insurance claim containing false, fraudulent, or misleading information.
- **Separate Roof Deductibles** - Allows insurers to include a separate roof deductible (up to 2% of the Dwelling Limit or 50% of the cost to replace the roof). The policyholder must also be offered the option to decline the roof deductible by signing a form approved by OIR. If a roof deductible is added to the policy at renewal, the insurer must provide a notice of change in policy terms and allow the policyholder to decline the separate roof deductible. The bill requires that policyholders must receive an actuarially sound

premium credit or roof deductible discount. Roof deductibles cannot apply to a **total loss** to the primary structure caused by hurricane or a tree fall

- **Insurer Underwriting** - Prohibits an insurer from refusing to issue or renew a homeowner's insurance policy with a roof that is less than 15 years old solely because of the age of the roof. If the roof is at least 15 years old, an insurer must allow for a roof inspection, performed by an authorized inspector at the homeowner's expense, before requiring the replacement of the roof as a condition of issuing or renewing a homeowner's policy. The insurer may not refuse to issue or renew if an authorized inspector indicates that the roof has **five years or more** of useful life.
- **Assignment of Benefits (AOB)** - Revises the definition of "assignment agreement" to include assignments executed by a party that inspects the property, clarifies that public adjuster fees are not an assignment agreement, and clarifies the requirement to provide a **Notice of Intent** to Initiate Litigation before filing suit. Prohibits assignment of the right to obtain attorney fees in suits arising out of a property insurance policy to persons other than a named or omnibus insured or a named beneficiary under the policy. Assignment agreements may occur, but the assignee vendor (i.e. roofing contractors) will no longer be able to recover attorney fees in suits against an insurer. Requires that a valid AOB must specify that the assignee will hold harmless the assignor from all liabilities, including attorney fees.
- **Attorney Fees / Fee Multipliers** - Creates a new standard for the award of an attorney fee multiplier in property insurance litigation. Attorney fee multipliers may only be awarded under rare and exceptional circumstances with evidence that competent counsel could not be hired in a reasonable manner.

Who is Navigating on Your Behalf?

As always, such matters turn political very quickly. Some are declaring victory with SB 2-D. Critics are quick to say the new bill doesn't go far enough. Regardless of politics, it will take time for the bill's measures to sort their way through the marketplace.

In the meantime, existing residents and new home buyers are scrambling to find competitively priced insurance solutions. Trying to save on premium, clients are often unknowingly underinsuring their properties and/or accepting policies with significant coverage limitations. As lenders are notified of such limitations, they will typically follow with threatening letters and requirements of their own.

We encourage all clients to engage with a reputable independent insurance agent and take time to review new policy quotes/proposals. It's critical to ensure proper insurance protections are afforded by each new policy.

Sentry Insurance Advisors is an independent agency located in Naples, FL. Our agency maintains licenses in more than 30 states and is proud to represent approximately 20 insurance carriers. As we work with new and existing clients, we always account for three primary risk management factors.

- **Financial Stability** – Carriers are not created equal. Their long-term stability is directly tied to their financial balance sheet, their reinsurance structure, and their underwriting risk selection. It's always important to understand the published financial ratings of each company you are considering. Can every company truly survive a CAT 5 hurricane? When they are flooded with thousands of claims across the state, how long will it take for them to properly repair/restore your home?
- **Policy Language** – Broad coverage usually translates to positive claims experiences but rarely comes at the lowest annual premium. A quality agent will attempt to meet each client's budget but will always take time to highlight coverage differences. Homeowners and condominium policies provide property **and** personal liability coverage. These policies protect personal assets, far beyond the replacement of a residence. Does your policy cap water damage claims at \$5,000? Does your policy exclude dog bite claims? What coverage is available if someone is injured on your property?
- **The Cost of Underinsurance** – The most common tactics used to lower annual premium are higher deductibles and reduced coverage limits. We often see cases where clients are purchasing million-dollar residences but unknowingly accept policies with coverage limits far below the true replacement value of the property. Saving money is always beneficial, until the ultimate price is paid at the time of claim. The cost of underinsurance will ultimately sink most ships.

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