STATE INSURANCE REFORMS AIM TO ALLEVIATE MARKET CHALLENGES

By **JOHN ROHRBACH**

Last year, National General Lender Services published an article highlighting that secondary perils, such as severe convective storms, wildfires, and river floods, are significantly impacting the insurance industry.[1] The trend continues into this year, as the U.S. recorded 13 separate billion-dollar insured thunderstorm outbreaks in the first half of 2024, eight of which topped $2 billion.[2] The impact of these losses, along with inflation and rising reinsurance costs, creates challenges for homeowner insurance affordability and availability in many parts of the U.S.

The outlook isn't entirely grim. Following several years of substantial losses for property and casualty insurers, there has been notable progress in resilience efforts, actuarially sound rating, and underwriting discipline. This progress enables them to continue offering coverage in difficult markets. Additionally, current and proposed state-level legislative solutions are beginning to yield positive results. Examining well-known insurance markets like Florida and California, as well as a less familiar one like Oklahoma, offers a view into how these adjustments are performing so far.

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Florida

After a relatively calm year for catastrophes in 2023, reinsurance capacity and rate stability are becoming more manageable. Coupled with reforms in the state's insurance code, the Florida insurance market is moving toward a more stable foundation.

The most significant change to the insurance code is Senate Bill 2A, signed into law in December 2022.[3] The intention of the law was to ensure policyholders have access to quality, affordable private market property insurance. Changes included reducing the incentive to litigate, lessening incentives for contractors to charge for unnecessary expenses, clarifying uncertainty when establishing a breach of an insurance policy, encouraging more prompt claim filings, and increasing the eligibility threshold to participate in its state-run insurer of last resort, Citizens Property Insurance Corp. Michael Yaworsky, Commissioner of Florida's Office of Insurance Regulation, notes that "we (Florida) were heading in a very bad direction for almost a decade." Further, "We finally got some reforms to bring a lot of the excess under control. And it's going to take time for consumers to feel that turning of the aircraft carrier."[4]

In addition, the My Safe Florida Home Program has been re-enacted to help homeowners mitigate hurricane damage to their homes. The program provides the ability to obtain free home inspections to identify storm mitigation measures. It also provides grants to retrofit homes for storm resilience, which helps decrease the cost of homeowner insurance.[5]

California

The California Department of Insurance has been involved in a multi-year review of the insurance conditions in the state, resulting in the Sustainable Insurance Strategy—which continues to roll out adjustments to the state's practices.[6] These changes include more timely review periods for needed rate/rule and form adjustments by insurers, the use of new catastrophe modeling that also requires insurers to write more policies in distressed areas, and modernization of the California FAIR Plan Association, the state's insurer of last resort.

Insurance Commissioner Ricardo Lara noted that, "Ultimately, we want to reduce the number of homeowners and businesses on the FAIR Plan by strengthening the market overall. Requiring the FAIR Plan to take concrete steps to protect policyholders in an extreme disaster will keep it an effective safety net for homeowners and businesses while my

reforms to fix the state's overall insurance market take effect."[7]

On the prevention front, it's encouraging to see the heightened focus and investment in wildfire mitigation. CalFire's annual budgets have grown, with a strong emphasis on resource management and fire prevention. Additionally, the federal government is dedicating more attention and resources to wildfire mitigation, suppression, and management.

Oklahoma

Although it may not be widely recognized, homeowner insurance in Oklahoma is relatively expensive compared to other states. The average premium for $300,000 of dwelling coverage in Oklahoma is $4,846, which is $2,576 more than the national average. The risk of tornadoes, hailstorms, seismic activity in certain areas, and flooding in the eastern part of the state are contributors to the state's high rates.[8]

To help lower homeowner insurance rates and improve disaster resilience, the Strengthen Oklahoma Homes Program was signed into law in May 2024.[9] The program will allow residents to apply to a grant program providing severe hail-resistant roofs, impact-resistant shingles and rain-resistant attic vents. Oklahoma Insurance Commissioner Glen Mulready said in a statement that if home enhancements are made through the grant program, homeowners could qualify for insurance discounts up to 42%.[10]

Looking Ahead

While it will take time for the benefits of state initiatives to be fully realized, incremental progress is being made. One recent positive development is the approval of nine Florida insurance carriers to offer take out policies from Citizens. It is anticipated that more than 400,000 customers will again have access to the private insurance market as a result.[11] This is positive news for customers and carriers alike.

Sources 1-11: See https://lp.constantcontactpages.com/cu/dMMHyL4 for links to source material.