OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

February 24, 2021

Dear Chair Ingoglia,

Thank you for the recent opportunity to testify at the House Commerce Committee and your subsequent letter regarding cost drivers affecting Florida's insurance rates. The Florida Office of Insurance Regulation (OIR) looks forward to continuing discussions with you and Committee members about this critical topic that affects all Floridians.

OIR's goal is to provide the Committee with relevant data as you evaluate Florida's insurance rates. I hope the information contained in this report a helpful resource.

As you'll see, the primary cost drivers for property insurance rates in Florida are associated with the following factors:

1. Catastrophe claims: Florida domestic property insurers have experienced significant underwriting losses due to recent catastrophe losses and loss creep;
2. Adverse loss reserve development: This creates a high degree of uncertainty in the property insurance market;
3. Higher reinsurance costs: Reinsurance costs have a particularly capacious influence on Florida's domestic property insurance industry due to its reliance on reinsurance to finance catastrophe losses; and
4. An increase in claims with costly litigation, even with the passage of HB 7065 to curtail litigation abuse.

Additionally, auto insurance premiums continue to increase in Florida across all coverages due to cost increases associated with distracted driving, increased repair and medical costs, and other factors. The report contains additional information regarding the potential impact that changes to the PIP law could have on premiums.

As we continue to work together to foster an insurance market in which products are reliable, affordable, and available, I am grateful for your leadership and the Committee's partnership.

Please do not hesitate to contact me should you have any questions or concerns.

Sincerely,

David Altmaier

David Altmaier
Insurance Commissioner

Florida Property Insurance Market Overview

Currently, there are approximately 7.4 million residential insurance policies in force in the Florida property market. Almost 90% of those policies are in the admitted market, as opposed to Surplus Lines or Citizens Property Insurance Corporation (Citizens) policies. The majority of the policies, approximately 82.4% (5,412,440 policies), of those issued by the admitted market are written by Florida's domestic property insurance market.[1]

Insurers in the admitted property insurance market undergo a rigorous licensing process by the Florida Office of Insurance Regulation (OIR), receive ongoing and thorough financial reviews, and file rates and policy forms with the OIR for review and approval.

The property market in Florida is stressed. As a result of significant adverse losses, property insurers in Florida are reducing their footprint in certain geographic areas of the state or ceasing to write new business in Florida altogether. As a result, the number of applications for coverage with Citizens is increasing. Property insurance premiums for policyholders are increasing and coverage is being reduced. Insurers are facing significant financial hardship due to negative underwriting results, adverse loss reserve development, and "social inflation" factors such as excessive litigation and door-to-door solicitation. A series of recent landfalling major tropical events including Hurricanes Michael[2] and Irma[3] have also negatively impacted the financial condition of domestic property insurers.

All of these factors combined are jeopardizing the availability and affordability of property insurance for consumers. Consumers are facing reduced availability, with fewer choices of coverage and increased premiums for coverage that is available. Insurers are facing reinsurance availability and affordability issues as well, as the uncertainty and volatility of the property market in Florida impacts the global reinsurance market and the cost of reinsurance, which is ultimately paid by consumers in the form of higher premiums. Throughout this report, OIR will outline market results, cost drivers in the market, identify impacts to consumers, and provide possible solutions to promote market stability.

OIR has compiled this data from sources including the NAIC Direct defense and Cost Containment (DCC) information, the U.S. Department of Transportation Federal Highway Administration, the Fast Track Monitoring System (ISS, ISO, and NISS), the Florida Department of Highway Safety and Motor Vehicles, and data compiled by the OIR, including the Hurricane Irma data call, Hurricane Michael data call, 2020 Assignment of Benefits (AOB) data call, and a recent property claims survey.

Underwriting Results

The past several years, including the first three quarters of 2020, have been driven by significant underwriting losses for Florida domestic property insurers. In the first three quarters of 2020, Florida's domestic industry reported a little over $1 billion in underwriting losses, almost double that of 2019.

[1] For the duration of this report, references to Florida's domestic property insurance market does not include Citizens, unless specifically noted.
[2] As of November 2, 2020, Hurricane Michael generated 158,991 claims with an estimated cost of $9.1 billion. (floir.com)
[3] As of November 9, 2020, Hurricane Irma generated 1,125,588 claims with an estimated cost of $20.7 billion. (floir.com)

(See Exhibit A)

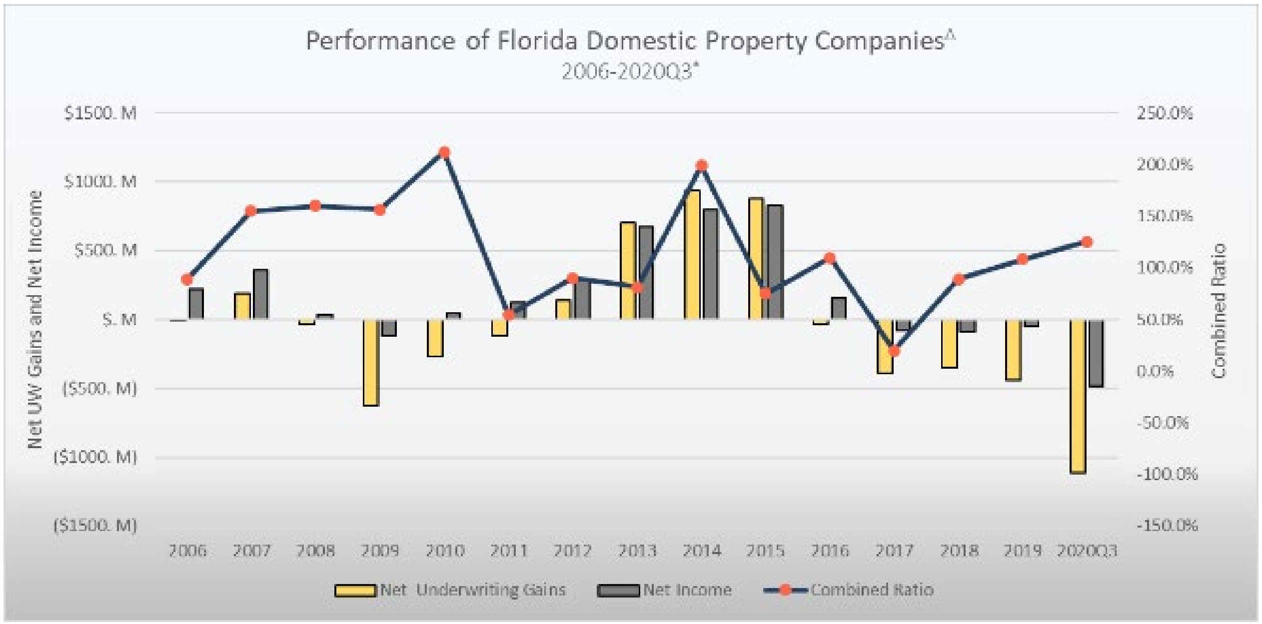

Exhibit A: Performance of Florida Domestic Property Companies
The yellow bar depicts the domestic industry's underwriting gain or loss. Underwriting gains or losses represent how much an insurance company has either made or lost from their operations and is a good indication of whether their net income or loss. The grey bar indicates the domestic industry's net income.

These underwriting results have a direct impact on the surplus position of individual insurers and the industry as a whole. Surplus acts as a buffer against catastrophe and other unexpected losses. From 2019 through the third quarter of 2020, the surplus of Florida's domestic property insurers decreased by almost $585 million.

As capital and surplus deteriorates, companies lose the capacity to write additional business, which directly impacts the availability of coverage for consumers. Continued losses of this magnitude are unsustainable.

COST DRIVERS IN THE PROPERTY MARKET

Loss Reserve Development

One of the primary factors driving these negative results is adverse loss reserve development over the past several years.

Insurers are required to set reserves to determine their future claim liabilities. Pursuant to section 624.424(1)(b), Florida Statutes, insurers are required to annually submit a statement of opinion on loss and loss adjustment expense reserves made by a member of the American Academy of Actuaries or by a qualified loss reserve specialist. Actuaries use probability theory and other methods of statistical analysis to determine the adequacy of insurance companies' statutory loss reserves.

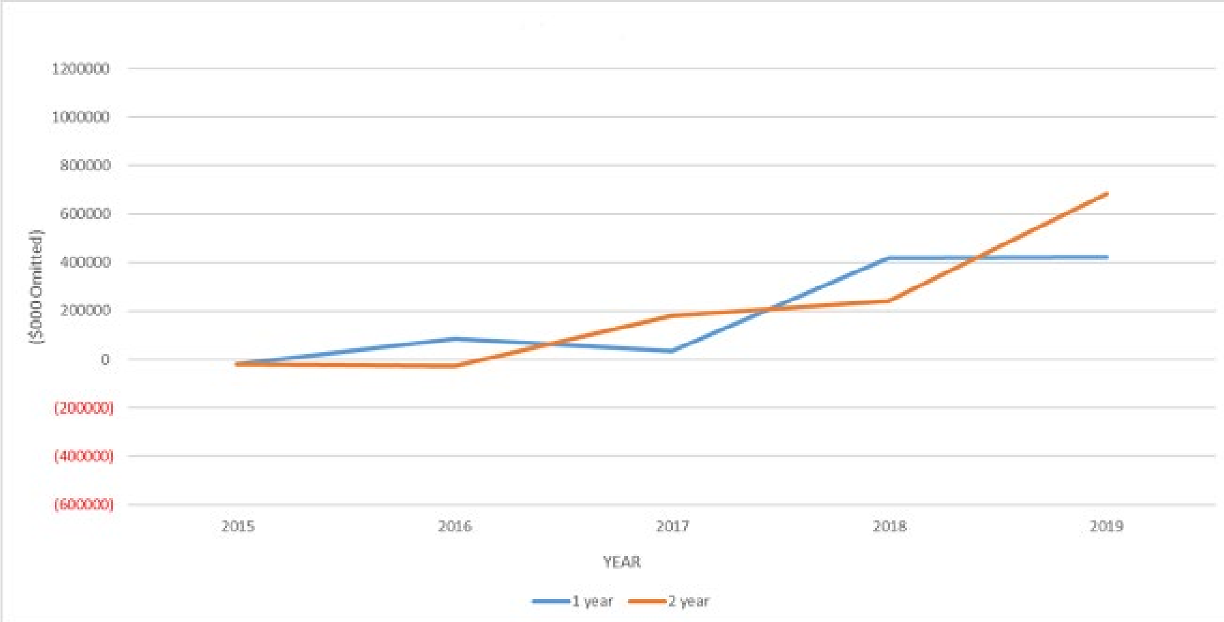

Exhibit B: Loss Reserve Development

Exhibit B depicts loss reserve development for Florida domestic insurers from 2015-2109. The blue line shows the one-year loss reserve development, and the orange line shows the two-year loss reserve development.

Upon the filing of a claim, or an anticipated claim, insurers establish a loss reserve, or the amount the insurer believes that claim will cost. At periodic points in time, an insurer goes back and evaluates how much those claims actually cost and uses that information to inform reserves going forward. If claims cost less than projected, reserve redundancies exist. If claims cost more than projected, reserves are said to have developed adversely.

If an insurers' claims being paid out are more than what the company has reserved, then the amount originally determined to be set aside is deficient. If market trends including but not limited to unexpected catastrophe losses, litigation, or social inflation, result in increased claims payments of more than what was originally reserved, the actuary may recommend increasing the companies' reserves for future claims payments.

The one- and two-year loss reserve development has increased dramatically, especially in 2018 and 2019.

To quantify, when carriers looked back one year later on their claims in 2018, the claims were about $418M more expensive than what the insurer originally estimated, and the two-year look back was approximately $241M more than the original estimate In 2019, claims were approximately $422M more than estimated, and increased to $682M at the two-year mark. The two-year reserve development shown in 2019 provides an indication of what may happen in 2020. These numbers reflect the high degree of uncertainty which exists in the property insurance market, which in turn impacts reinsurance capacity and reinsurance rates for insurers. In the simplest of terms, the greater the uncertainty that exists on future claims, the more reinsurers will tend to hedge their willingness to offer capacity and the capacity that is available will cost more as a result.

The insurance industry is inherently uncertain; for this reason, it is not expected that the established loss reserve will always exactly equal the ultimate cost of claims. However, it is also not expected that the ultimate cost of claims will be double or triple the estimated loss reserve. This uncertainty impacts an insurer's ability to set adequate rates, secure reinsurance, and attract investors.

Claims Cost Associated with Litigation

One of the primary reasons for the above adverse loss reserve development is the increase in the frequency and severity of litigated claims. In 2019, Florida passed legislation curbing excessive litigation associated with the use of Assignment of Benefits (AOBs), thanks to the leadership of Governor DeSantis, CFO Patronis, and the Florida Legislature. While lawsuits containing an AOB have dropped sharply from 2019 to 2020, lawsuits without an AOB have risen at a greater rate than in prior years, causing the overall total number of lawsuits to increase from 2019 to 2020.

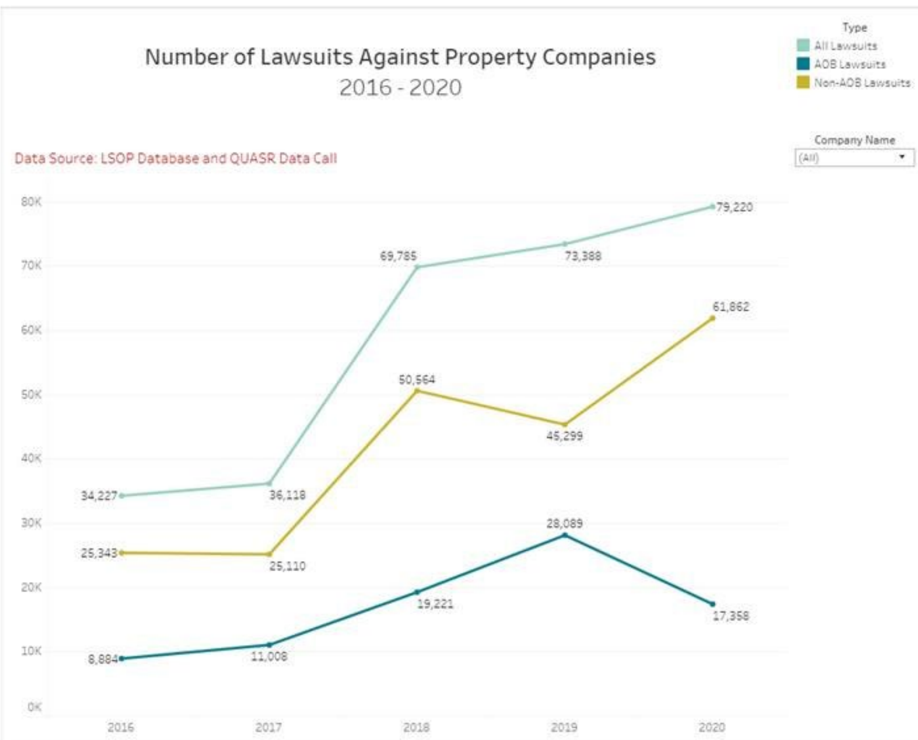

Exhibit C: Lawsuits Filed Against Property Companies
Using data from the Department of Financial Services Legal Service of Process, OIR matched lawsuits against known property writers. AOB frequency was determined mainly through the presence variations of "AAO" terminology.

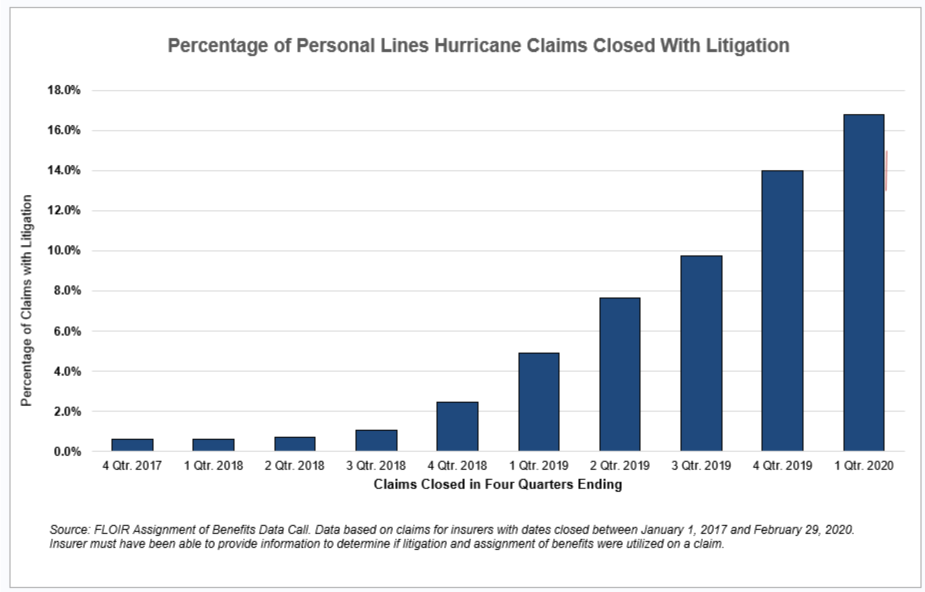

Exhibit D: Hurricane Claims in Litigation
Data obtained by OIR from various sources shows that the industry has experienced a high frequency of claims litigation between 2016 and 2020. Reasons for this include catastrophic windstorm events such as hurricanes Michael and Irma, increasing litigation, and social inflation.

In 2020, OIR issued an AOB data call to begin tracking the impact of the legislation. While it is too early to determine the full impact of the legislation, initial analyses indicate the reform has had a positive impact on reducing litigation associated with AOBs.

A litigated claim costs approximately three times the cost of a non-litigated claim.

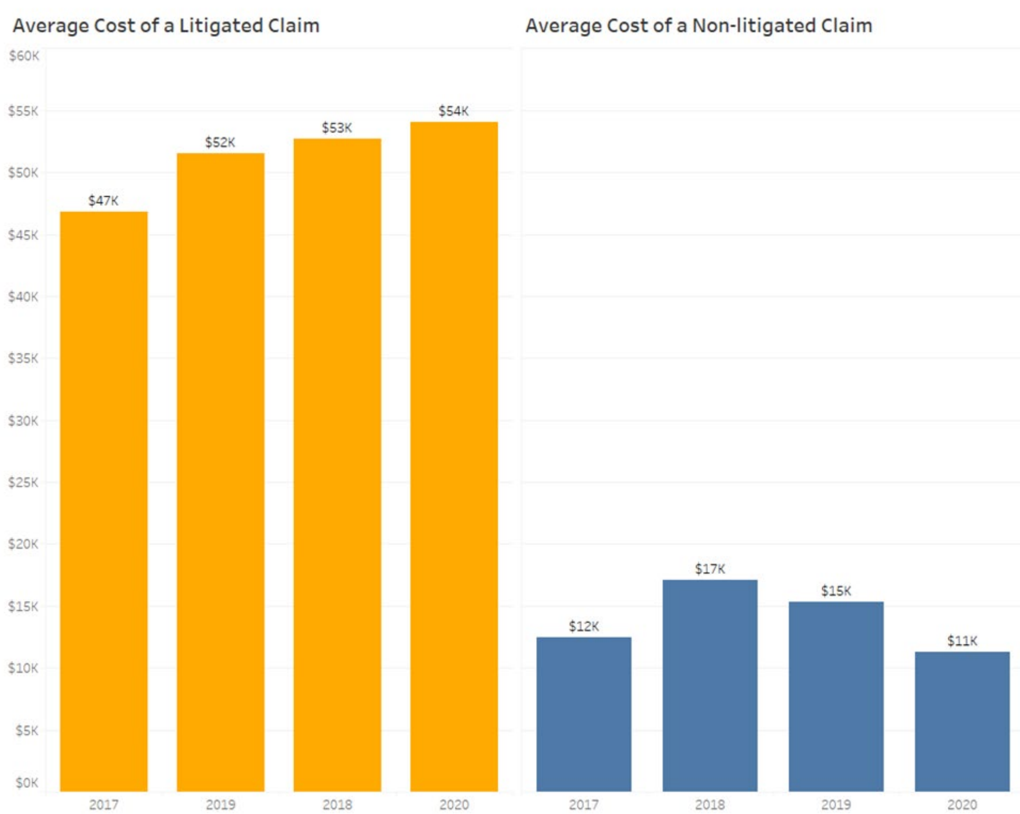

Exhibit E: Average Cost of a Litigated and Non-litigated Claim
Data in this chart was provided by insurers as part of the OIR 2021 property claim survey. OIR received data from insurers that provide coverage for 58% of the market.

While the 2020 AOB data call shows that the use of AOBs is decreasing, it also shows that claims with litigation are increasing, albeit at a slower rate than before the AOB reform. If this trend continues, insurers are likely going to continue seeing adverse loss reserve development, and that will exacerbate other negative market conditions, such as rising consumer rates and rising reinsurance rates.

For example, in August 2020, Capitol Preferred Insurance Company requested a statewide average rate increase of 26.2% for its business in the Homeowners Multi-Peril account. Capitol Preferred indicated that, while it had experienced a minimal reduction in AOB claims due to the passage of HB 7065, it experienced an overall increase in litigation. Capitol Preferred indicated that this increase in litigation was a contributing factor in its requested rate increase. Additionally, the company stated that it continues to see increases in non-catastrophe water losses, which leads to more litigation on those claims.

Exhibits C, D, E, and F also provide a representation of litigation trends based on data compiled by OIR.

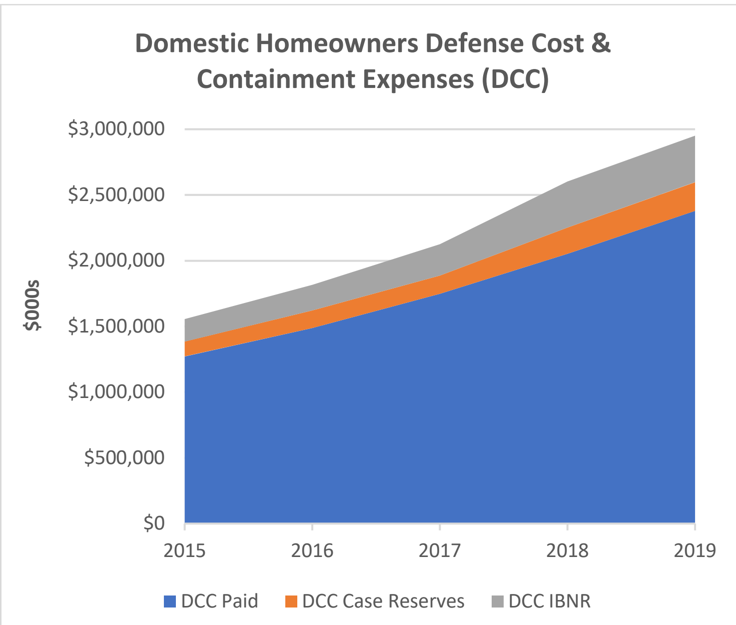

Exhibit F: Defense Cost & Containment Expenses
To further illustrate a rise in litigation costs, in 2019, insurers paid approximately $2,379,073,000 in Direct defense and cost containment (DCC). The DCC includes defense, litigation, and medical cost containment expenses, whether internal or external. It includes attorney fees owning to a duty to defend.

While there are several reasons why litigation is increasing, much of the increase followed the Supreme Court's ruling in *Joyce*.[4] Specifically, the decision reaffirmed "adherence to the use of contingency fee multipliers" and stated that "there is not a 'rare' and 'exceptional' circumstance requirement before a contingency fee multiplier can be applied." The holding in *Joyce* appears to have increased the potential for litigants to access fee multiplier awards and could further incentive plaintiffs' attorneys to proceed with costly litigation as opposed to exploring other avenues of claim resolution. While direct data may not exist related to this assertation, the date of the Joyce decision would appear to coincide with the increase in non-AOB litigation in the Service of Process data base.

[4] *Joyce v. Federated Nat'l Ins. Co.*, 228 So. 3d 1122 (Fla. 2017)

Roof Claims

Insurers are increasingly reporting an uptick in roof-related claims. One of the trends that has emerged following the passage of AOB reform in 2019 is roof solicitation, with the promise of a new roof at no cost to the policyholder. These kinds of solicitations provide insight into why litigation and claim costs may still be increasing, which will lead to increased premium costs for consumers.

To add clarity to this reported trend, OIR issued a 2021 property claims survey that, among other things, requested data on roof claims. Overall, OIR received data from insurers that provide coverage for 58% of the market. The data shows that from 2017 through 2019 there was a substantial increase in the number of roof claims that were litigated. While there was a dip in 2020 in the percentage of litigated roof claims in 2020, it's possible that when responding to the survey, insurers may have reported only closed claims as of the end of that calendar year. In that case, many claims opened in 2020 may not have closed in the same calendar year due generally to the speed of closure and the time litigation takes and specifically to the pandemic, litigation timelines and the effects of the pandemic on court proceedings.

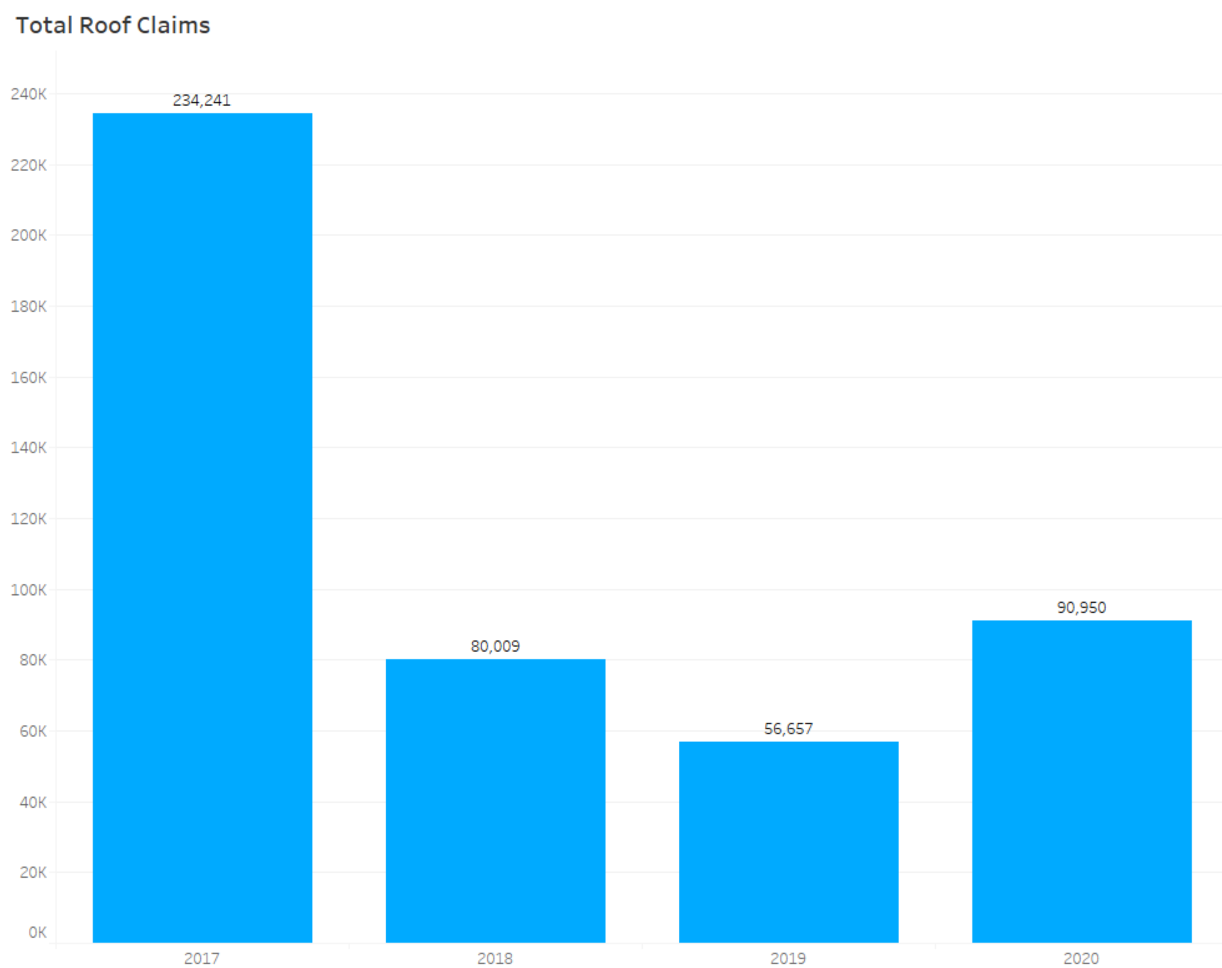

Exhibit G: Total Roof Claims Reported by Year, OIR 2021 Property Claims Survey

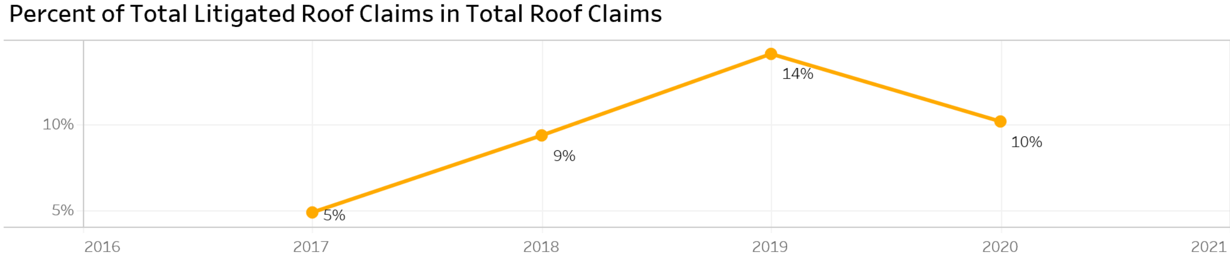

Exhibit H: Percent of Total Litigated Roof Claims in Total Roof Claims, OIR 2021 Property Claims Survey

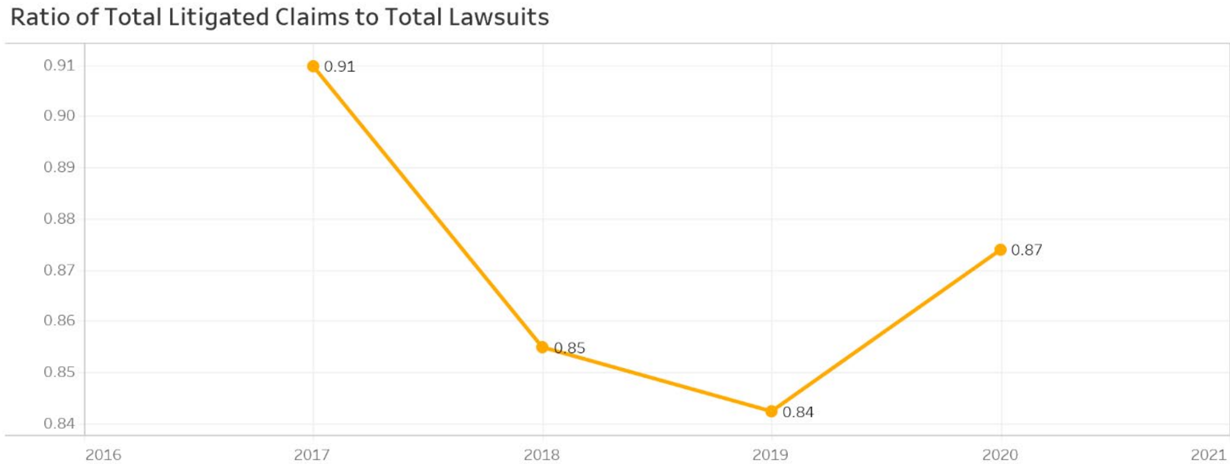

Exhibit I: Ratio of Total Litigated Claims to Total Lawsuits, OIR 2021 Property Claims Survey

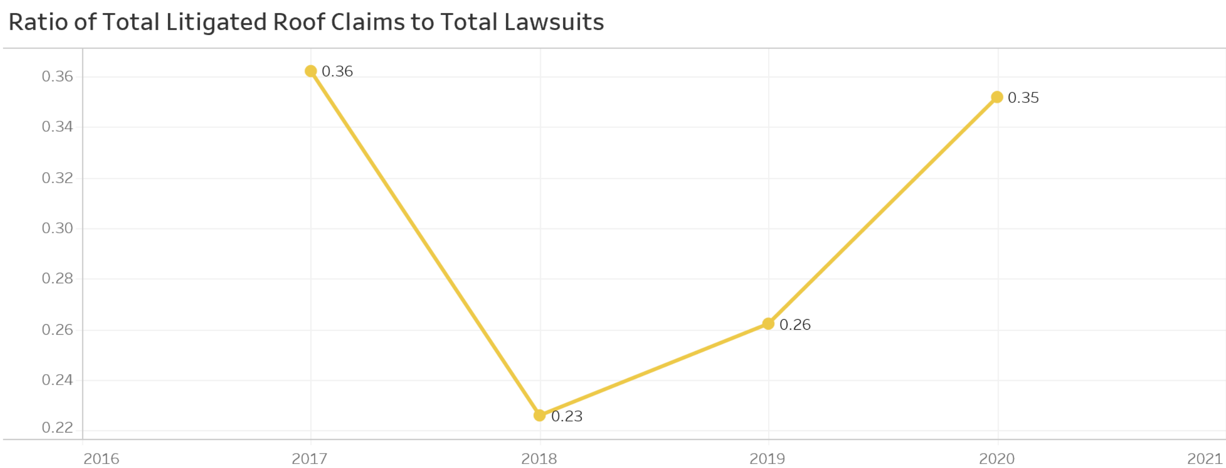

Exhibit J: Ratio of Total Roof Claims to Total Lawsuits, OIR 2021 Property Claims Survey

The data gathered generally reflects an increasing number of roof claims and related litigation between 2016 and 2020.

Reinsurance Costs

In addition to the direct impact to insurers described above, these results also have detrimental indirect impacts as well, notably the impact these results have on the cost of reinsurance. Florida is the most catastrophe-prone region in the United States with 8,436 miles of shoreline. To spread that catastrophic risk outside of Florida's borders, insurers turn to the global reinsurance market. Florida's domestic property insurance industry is especially reliant on reinsurance to finance the payment of catastrophe losses and is sensitive to hardening reinsurance market conditions. When the supply of reinsurance is readily available and affordable, the capacity of domestic property insurers to write and retain business is enhanced, and the premium impact to consumers is modest.

When the supply of reinsurance is limited and/or expensive, the capacity of domestic property insurers is particularly constrained, which results in reductions in writings and increases in premiums to consumers. The hardening reinsurance market has resulted in increased reinsurance costs for domestic property insurers.

Limited Reinsurance Rate Filings

The impact of the hardening reinsurance market can be seen in the number of limited reinsurance rate filings submitted to OIR. A limited reinsurance filing is an expedited filing permitted by law which allows an insurer to recoup the cost of reinsurance purchased if the filing does not result in an increase to any policyholder of more than 15%. During the four-year period from 2014 to 2018, OIR received a total of 10 limited reinsurance filings. During the 18-month period from June 2019 to the end of 2020, OIR received 107 limited reinsurance filings.

On average, insurers making limited reinsurance rate filings in 2020 reflected a need for a rate increase of approximately 10% to cover just the increased cost of reinsurance. The average rate need reflected in limited reinsurance filings in 2019 was just over 6%. Insurers with higher reinsurance costs not recoverable under limited reinsurance filings are including the higher reinsurance cost in comprehensive rate filings.

Annual Reinsurance Data Call

OIR conducts an Annual Reinsurance Data Call (ARDC) to obtain information on reinsurance agreements of Florida's property insurers for the upcoming hurricane season. The data call specifically relates to all property insurance policies providing wind coverage.

Based on findings from the ARDC for the 2020-2021 year, the amount of 2020 reinsurance coverage purchased by insurers has increased an average of 15% from 2019. However, the cost of that reinsurance has increased dramatically by 54% from 2019 figures.

IMPACT ON FLORIDA CONSUMERS

Insurers can respond to the multiple challenges in the market in a number of ways. Insurers may decide to withdraw, either partially or completely, from the market, or to non-renew existing policies. Either of these options creates an availability issue for consumers. Insurers may also need to increase premiums to cover expected losses and expenses, which creates an affordability issue for consumers. The chart below is a graphic depiction of the impact of market forces on premiums.

In 2020, OIR saw a dramatic increase in the number of rate filings approved with a rate increase of more than 10%. Specifically, of the 105 homeowners' multi-peril rate filings the OIR approved, 55 were ultimately approved for an increase greater than 10%. In 2016, out of 64 approved filings, only six were for an increase greater than 10%. (See Exhibit K)

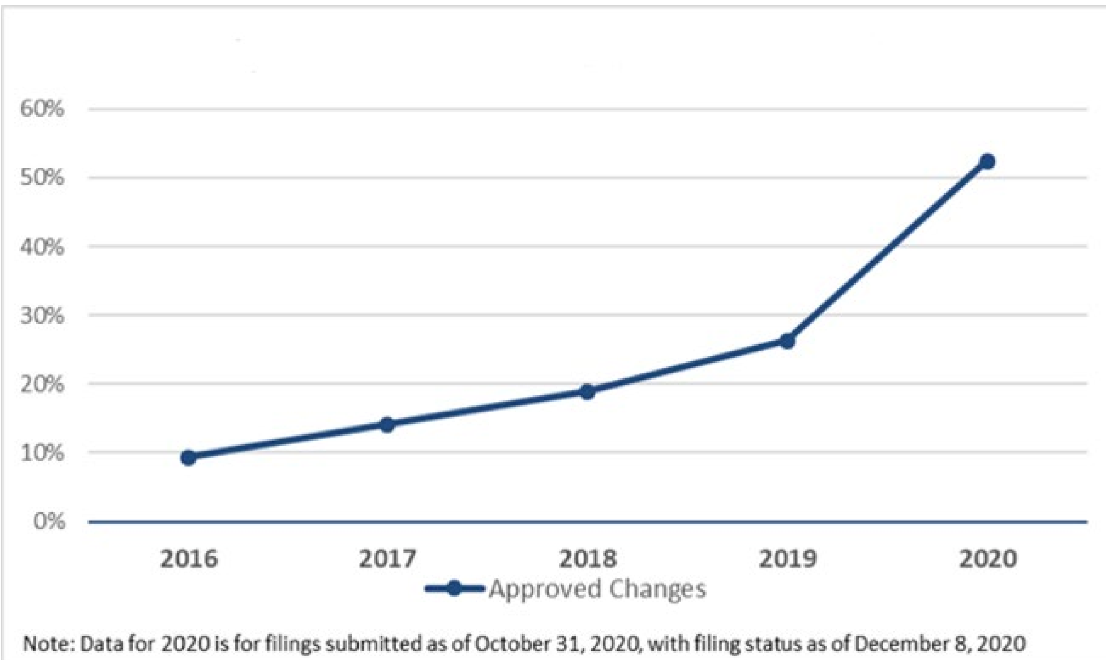

Exhibit K: Personal Residential Rate Filings Approved Greater than 10%

If a rate filing request is greater than 15% and uses data, in whole or in part, from a computer model, a public hearing is required. Since December 2019, OIR has held seven public rate hearings for companies requesting rate increases greater than 15%.

The substantial increase in the number of rate filings being made with OIR and in the amount of rate increases being requested further demonstrates the pressure adverse loss reserve development, reinsurance costs, social inflation, excessive litigation, and other factors are placing on the market. **These higher rates create affordability issues for millions of Floridians.**

SOLUTIONS

Addressing the cost drivers outlined in this report will help to stabilize rates and ensure that the market supports insurance products that reliable, available and affordable for Florida consumers. As the Florida Legislature begins to address some of these issues, OIR provides the following recommendations for consideration.

Tort Reform

There is evidence to support the need for tort reform that will foster stability in the insurance marketplace during periods of distress from natural catastrophes and social inflation. It is critical that consumers have access to legal relief when, by fact or belief, they receive unfair treatment from their insurance company, but excessive litigation is harmful to consumers because it raises rates, reduces options, and creates instability in the market.

Specifically, solutions could include:

- <u>The Implementation of a Pre-suit Notice Requirement</u>: Establish a requirement that claimants provide a 60-day pre-suit notice to the insurer prior to the commencement of litigation. Affording an insurance company a meaningful opportunity to address a consumer's concerns regarding a claim prior to a lawsuit provides another avenue for resolution, potentially eliminating costly litigation.

- <u>Establishing Stricter Criteria on Attorney's Fees</u>: Establish a limitation on attorney's fees in first-party claims. If the policyholder does not win at least 80% of their pre-suit demand in trial, their attorneys' fees are reduced or eliminated. The recently enacted AOB legislation provides a potential framework for this.

- <u>Consider reviewing the concurrent causation framework established by the *Sebo* decision:</u> While not specifically tort reform, this decision seems to have incentivized a preponderance of roof claims solicitations. Under the framework of the *Sebo* decision, there could be an incentive to claim that a small portion of shingles that are damaged by a potentially covered peril could lead to the entirety of the roof being replaced. This could cause insurance contracts to function more like maintenance contracts, which is not the intent or purpose of insurance. Establishing a statutory framework for when concurrent causation is appropriate and when it isn't could be a more consumer friendly approach to addressing this issue than allowing actual cash value on roofs.

Clear Authority to Review Financial Transactions of MGAs

The OIR reviews managing general agents (MGAs) and service agreements between insurers and affiliates within a holding company system as a tool to understand the interrelationship between the parties, the functions that each performs, and the compensation paid for such services.

The Legislature could amend Florida Statutes to clarify that the OIR has clear[5] authority to examine or review the financial condition of a managing general agent (MGA) to better ensure that transactions between the insurer and these entities are fair and reasonable in relation to the services provided to the insurer. This would provide OIR with a better overall picture of the financial condition of domestic insurers by ensuring regulatory access to the financials of affiliated entities which provide services to the insurer. This may have the added benefit of increasing public trust in domestic insurers and encourage capital investment in the insurance entities within holding company systems.

Data Collection

Amend Florida Statutes to require insurers to collect and report litigation trends to OIR on an annual basis. Concerns surrounding litigation trends are not new. There is a widespread agreement that litigation related social inflation is harming the affordability and availability of insurance products within Florida's private homeowners' market. Gathering specific data to support this has proven difficult because of the way individual insurers collect and retain data. In response to OIR's most recent survey, several insurers indicated that they could not provide a response to some or all of the questions related to litigation trends because they did not collect the data.

Gathering and evaluating comprehensive data surrounding litigation trends is an important component in formulating appropriate solutions to this problem. This comprehensive data would allow OIR to more effectively identify current and emerging litigation trends to provide recommendations to policymakers.

Claims Window

Amend section 627.70132, Florida Statutes, to change the requirement relating to the notice of a windstorm or hurricane claim.

Insurers have an absolute obligation to honor in full faith all valid claims that are timely reported. Currently, Florida has a three-year window for filing claims following a windstorm event such as a hurricane. Shortening the window to file a windstorm or hurricane claim could help prevent fraudulent claims arising years after the storm has passed as well as help address adverse loss reserve development.

A shorter period would allow adequate time for a homeowner to evaluate damage from a storm and file a claim. Insurers would be better able to adjust losses and more accurately estimate the cost of a claim.

[5] Sections 626.7452, 624.316, 624.318, 624.424, and 626.7451, F.S.

Florida's Domestic Property Insurers*

AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA
AMERICAN CAPITAL ASSURANCE CORP
AMERICAN COASTAL INSURANCE COMPANY
AMERICAN INTEGRITY INSURANCE COMPANY OF FL
AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.
AMERICAN PLATINUM PROPERTY AND CASUALTY INSURANCE COMPANY
AMERICAN SOUTHERN HOME INSURANCE COMPANY
AMERICAN STRATEGIC INSURANCE CORP.
AMERICAN TRADITIONS INSURANCE COMPANY
ASI ASSURANCE CORP.
ASI HOME INSURANCE CORP.
ASI PREFERRED INSURANCE CORP.
AUTO CLUB INSURANCE COMPANY OF FLORIDA
AVATAR PROPERTY & CASUALTY INSURANCE COMPANY
CENTAURI SPECIALTY INSURANCE COMPANY
CITIZENS PROPERTY INSURANCE CORPORATION
CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY
EDISON INSURANCE COMPANY
FCCI INSURANCE COMPANY
FEDNAT INSURANCE COMPANY
FIRST COMMUNITY INSURANCE COMPANY
FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
FIRST PROTECTIVE INSURANCE COMPANY
FLORIDA FAMILY HOME INSURANCE COMPANY
FLORIDA FAMILY INSURANCE COMPANY
FLORIDA FARM BUREAU CASUALTY INSURANCE COMPANY
FLORIDA FARM BUREAU GENERAL INSURANCE COMPANY
FLORIDA PENINSULA INSURANCE COMPANY
GRANADA INSURANCE COMPANY
GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
HERITAGE P&C INSURANCE COMPANY
HOMEOWNERS CHOICE PROPERTY & CASUALTY INSURANCE COMPANY, INC.
JOURNEY INSURANCE COMPANY
KIN INTERINSURANCE NETWORK
MAIN STREET AMERICA PROTECTION INSURANCE COMPANY
MONARCH NATIONAL INSURANCE COMPANY
OLD DOMINION INSURANCE COMPANY
OLYMPUS INSURANCE COMPANY
PEOPLE'S TRUST INSURANCE COMPANY

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
PROGRESSIVE PROPERTY INSURANCE COMPANY
SAFE HARBOR INSURANCE COMPANY
SAFEPOINT INSURANCE COMPANY
SAFEPORT INSURANCE COMPANY
SECURITY FIRST INSURANCE COMPANY
SOUTHERN FIDELITY INSURANCE COMPANY
SOUTHERN OAK INSURANCE COMPANY
ST. JOHNS INSURANCE COMPANY
STATE FARM FLORIDA INSURANCE COMPANY
TOWER HILL PREFERRED INSURANCE COMPANY
TOWER HILL PRIME INSURANCE COMPANY
TOWER HILL SIGNATURE INSURANCE COMPANY
TYPTAP INSURANCE COMPANY
UNITED PROPERTY & CASUALTY INSURANCE COMPANY
UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
UNIVERSAL PROPERTY & CASUALTY INSURANCE COMPANY
US COASTAL PROPERTY & CASUALTY INSURANCE COMPANY
VAULT RECIPROCAL EXCHANGE
WESTON INSURANCE COMPANY

*This list provides all domestic property insurers writing business in Florida. Not all companies were participants in our survey.

Florida Auto Insurance Market Overview

Florida boasts a competitive automobile insurance market with 613 licensed insurers to write this type of coverage, generating more than $24B in written premium as of third quarter 2020. The Florida Office of Insurance Regulation is charged with licensing companies to write automobile insurance in the state, reviewing their forms and rates for compliance with all applicable laws, and monitoring the conduct of such insurers in the marketplace.

As is discussed later in this report, overall loss trends for automobile insurance losses in Florida are continuing to increase for the most significant coverages such as Bodily Injury (BI) liability, Personal Injury Protection (PIP) and Comprehensive coverage. These increases, which result from the cost drivers discussed below, are likely to continue into the future, regardless of what mandatory insurance coverage framework is in place in Florida.

Florida's current No-Fault Motor Vehicle Law requires owners and registrants of motor vehicles to carry PIP coverage and Property Damage (PD) liability coverage. During the past several legislative sessions, efforts have been made to repeal PIP and replace it with some variation of mandatory BI liability coverage in an effort to reduce automobile insurance premiums. The primary difference between PIP and mandatory BI is that under PIP, which is a no-fault coverage, persons injured in an auto accident seek coverage first under their own PIP policy, whereas under mandatory BI, persons injured in an auto accident would seek recovery from a responsible third-party's BI coverage. A discussion of the potential impact of the repeal of PIP follows an analysis of the cost drivers affecting auto insurance premiums in Florida.

While COVID-19 relief filings and decreases in vehicle miles traveled during the pandemic has temporarily ameliorated the cost drivers, overall loss trends in auto insurance in Florida continue to be high compared to the nationwide average.

COST DRIVERS IN THE AUTO MARKET

Frequency and Severity of Crashes

With the noted exception of 2020, nationwide, consumers are driving more miles. An increase in vehicle miles traveled also increases exposure to crashes. As fewer miles were driven in 2020, the frequency of crashes in 2020 has also decreased.

In Florida, the frequency of crashes has decreased since 2016. COVID-19 has significantly impacted the frequency of crashes in 2020 due to the decrease in drivers on the road; however latest crash data from fourth quarter 2020, as of February 10, 2021, suggests that frequency may be returning to close to the 2019 levels.

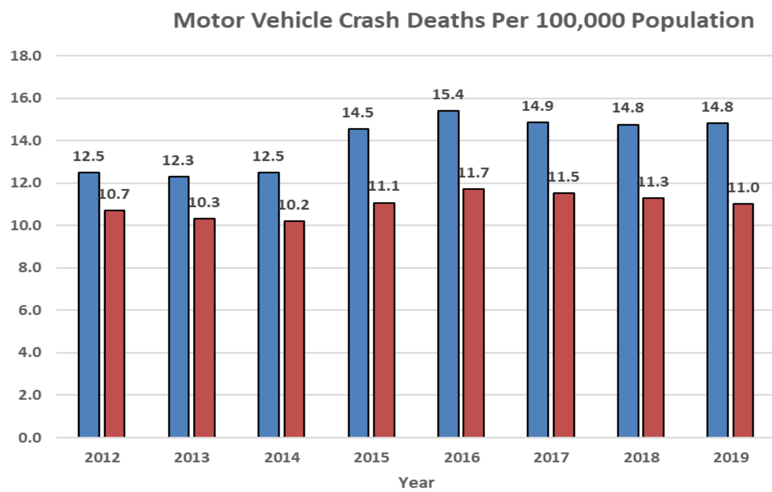

Exhibit 1: Motor Vehicle Crash Fatalities

The Florida average is represented in blue and the nationwide average is represented in red. Based on information from the National Highway and Traffic Safety Administration (NHTSA), from 2012–2019. https://cdan.nhtsa.gov/stsi.htm#

From 2017-2019, there has been a reduction in the frequency of fatal crashes nationwide. Florida, however, has not benefitted from this nationwide trend, as its crash fatality rates have remained steady. In addition, Florida continues to report a much higher rate of fatal crashes than the rest of the nation. The data suggests that crash frequency trends may be increasing while crash severity remains high relative to the rest of the nation.

Frequency and Severity of Claims

Based on data from the fast track monitoring system, which is data compiled by multiple statistical agencies to report the frequency and severity of auto insurance claims is detailed below.

Coverage	Florida			Countrywide		
	Frequency	Severity	Pure Premium	Frequency	Severity	Pure Premium
Bodily Injury	-1.80%	26.70%	24.50%	-8.50%	24.10%	13.60%
Property Damage	-8.30%	20.40%	10.40%	-8.40%	21.40%	11.10%
Personal Injury Protection	10.40%	2.10%	12.60%	-10.40%	13.30%	1.50%
Comprehensive	16.70%	13.00%	31.80%	2.30%	22.30%	25.10%
Collision	-2.50%	13.10%	10.30%	-2.30%	15.90%	13.20%

Exhibit 2: Percent Change by Coverage from 2015-2019

Based on data from the Fast Track monitoring system (ISO, ISS and NISS). Frequency represents the number of claims, severity represents the cost of the claim, and the overall loss trend represents losses divided by exposure. The coverages do not take into account policy limits, which may differ significantly by state.

From 2015-2019, on average, the overall loss trends for bodily injury and personal injury protection in Florida are significantly higher than the nationwide average and comprehensive coverage trends in Florida outpace the national average.

Consumer Pricing

Coverage	Florida			Countrywide		
	Frequency	Severity	Pure Premium	Frequency	Severity	Pure Premium
Bodily Injury	-1.80%	26.70%	24.50%	-8.50%	24.10%	13.60%
Property Damage	-8.30%	20.40%	10.40%	-8.40%	21.40%	11.10%
Personal Injury Protection	10.40%	2.10%	12.60%	-10.40%	13.30%	1.50%
Comprehensive	16.70%	13.00%	31.80%	2.30%	22.30%	25.10%
Collision	-2.50%	13.10%	10.30%	-2.30%	15.90%	13.20%

Exhibit 3: Chances in Consumer Price Index

The data represents changes in the consumer price index on average across the U.S. for all urban consumers, according to the U.S. Bureau of Labor. Statistics are not seasonally indexed. https://data.bls.gov/PDQWeb/cu

The costs of the services associated with auto insurance claims, including medical care, hospital care and services, and motor vehicle body work has risen consistently over the years by approximately 2-4% each year.

IMPACT OF COST DRIVERS ON FLORIDA CONSUMERS

There have been some major rate changes in the market over the last several years. In 2016 and 2017, more than two-thirds of the personal auto insurance rate filings that were approved were for rate increases greater than 5%. As the frequency of crashes began to decrease in Florida in 2017, it was reflected in the experience period utilized in the rate filings. Starting in 2018, that percentage reduced to one-third of personal auto rate filings. After a slight spike in the number of rate increases approved for greater than 5% in 2019, the 2020 year saw such rate increases decrease because of the pandemic.

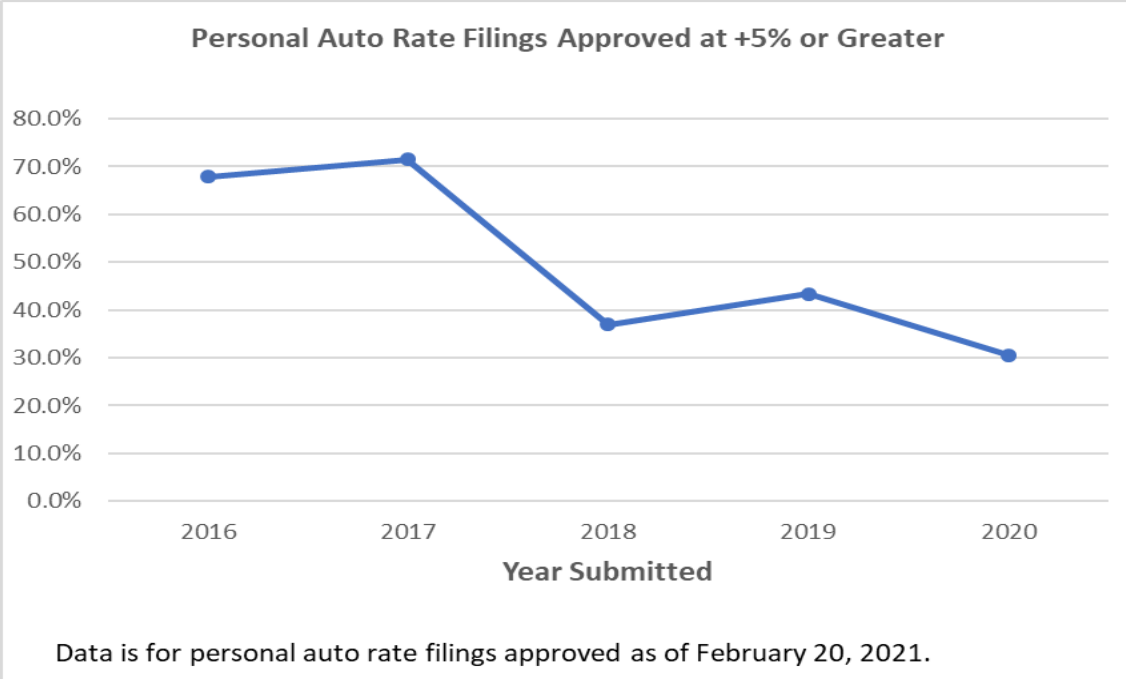

Exhibit 4: Personal Auto Insurance Rate Filings +5% or Greater

In response to COVID-19 and following the OIR issuance of Informational Memorandum OIR-20-04M, OIR has worked with numerous insurers to implement 117 COVID-19 relief filings as of February 23, 2021 that provide for premium relief, moratoriums on cancellations, premium collection, and other relief. Of these 117 filings, approximately 25% were related to personal auto and 35% were related to commercial auto. OIR is working with insurers to implement premium credits to provide immediate benefit to Floridians and continues to monitor these commitments.

Personal Injury Protection (PIP)

The debate over the repeal of PIP has been focused on finding a suitable replacement that will have a minimal impact on rates for consumers. The prevailing theory from policymakers has been to replace PIP with mandatory BI and either optional or mandatory Medical Payment ("MedPay") coverage. There have been several bills filed with the legislature on this issue over the past five years.

The initial impact on consumers will vary significantly based on many different factors, such as:

- The limits chosen for BI coverage;
- Whether MedPay is mandatory or optional and the limits associated with that coverage;
- What types of coverage are currently purchased by the consumer;
- Where the consumer lives; and
- The driving history of the consumer.

Changes to the PIP law and any premium impact therefore should be viewed in the broader context of overall premiums for auto insurance coverage. Auto insurance premiums are continuing to increase across all coverages because of increases in costs due to increase in the severity of crashes, increased repair and medical costs, and other factors. These trends in auto insurance rates will likely continue, regardless of whether PIP remains or is replaced by BI. If PIP is repealed and replaced with mandatory BI and MedPay, without addressing bad faith and litigation trends, increased litigation and claims costs associated with the new mandatory coverages could increase premiums dramatically.

To assist policymakers in evaluating the impact of repealing PIP and replacing it with mandatory BI, OIR has commissioned Pinnacle Actuarial Resources, Inc. to conduct a study to analyze the impact of repealing the requirement to purchase PIP and replacing it with the traditional tort liability system. This study is a follow up from a 2016 report. Based on its analysis of data at that time, Pinnacle estimated that the overall impact on automobile insurance premiums resulting from the repeal of PIP and its replacement varied, sometimes significantly, depending on what coverages were required and at what amounts.

Pinnacle's 2016 Estimated Impact on Overall Average Statewide Auto Premiums

	BI \$10/\$20	BI \$15/\$30	BI \$25/\$50
MedPay Optional	-6.7%	-6.2%	-5.6%
\$2,500 Mandatory Med Pay	-3.4%	-2.9%	-2.4%
\$5,000 Mandatory Med Pay	-0.7%	-0.2%	+0.3%

It may be that the time has come to repeal PIP on the theory that it is no longer effective as a no-fault option to provide personal injury protection. But PIP repeal should not be pursued if the goal is simply to reduce auto insurance premiums. Such a goal could well be an elusive one since other market forces and costs are continuing to exert pressure on auto losses and premiums in Florida, which may well result in continued premium increases.