



## Blogs

# Why Are My Insurance Rates So High?



By David Thompson posted 7 hours ago

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Even being a bit "removed" from the daily grind of an insurance agency, I am routinely asked about why insurance rates are so high. Right here in my HOA, for some reason, the 258 households know that I am in the insurance industry, and they routinely ask me this question.

A couple of weeks ago, long-time friend and fellow "Insurance Nerd" Kevin McEwan sent me an email on this issue. He said, "My receptionist (she is licensed) was on the phone with a customer and was struggling to explain why premiums are increasing so much. Do you have any information that I could use to educate my staff and our customers?"

So, over the course of the next few mornings on my pre-sunrise run around the HOA, I thought about what some of the causes of our "disastrous" insurance market (my opinion) in Florida are. To help Kevin and other agents, I [wrote a blog](#) that initially appeared on Scott Johnson's website. Scott worked at FAIA for decades and is a foremost authority concerning the insurance industry in Florida. A link to the article is below and it has been reproduced here in its entirety with permission.

I have already sent it to several agents for their use. One comment was, "This is long." I'm a "slow reader" and I can read the article in about ten minutes. My extremely biased view is, "If we can't find 10–15 minutes to educate ourselves about our industry in order to help our customers, then something is wrong. We owe it to ourselves, and we owe it to our industry."

I'm an "early riser" and some days have completed my morning run and much of a morning bike ride shortly after sunrise. I enjoy my breakfast on my back porch at my favorite part of the day. It's then that I can find a few minutes for my "morning insurance education."

Still, an "executive summary" of the article might be helpful until we can find the 10–15 minutes to read the entire article...won't we!!

In no particular order, what follows is my summary of why rates have increased so dramatically. Please use this to educate yourself, your staff, and your clients.

You can always reach me directly at [DavidThompsonInsurance@gmail.com](mailto:DavidThompsonInsurance@gmail.com).

- In 2022, almost 1,200 people per day moved to Florida. They brought more vehicles here, drove more miles, and caused more accidents that resulted in more claims costs to insurers. They built more new houses that increased the "structure density" in the state, resulting in increased claims payments from insurers.
- Going back to Hurricane Andrew in 1992, hurricanes have cost insurers hundreds of billions of dollars. Florida is "hurricane alley."
- Florida accounts for nine percent of homeowners insurance claims countrywide, but 80 percent of the litigation. People like to sue in Florida, which has been termed a "judicial hellhole" by some organizations.
- Reinsurance costs for insurers have increased dramatically. These costs are passed along to consumers.
- About a dozen insurers have become insolvent in the past few years. These costs are passed along by the guaranty association (FIGA) to consumers.
- Florida has a long history of a favorable court system for plaintiff attorneys.
- Seasonal residents with multiple homes and cars must weigh the benefit of that luxury.
- Inflation of building costs over the past few years has resulted in increased claims payments.
- Abuses of assignment of benefits resulted in increased claims costs by insurers.
- Florida's pure comparative negligence concept, unusually long claim filing deadline, and the favorable (to plaintiff attorneys) bad faith claim concept caused insurance premium increases.
- Some of the legislative reforms passed in 2022 and 2023 have already resulted in some favorable responses by insurers. The actuarial data will take several years to come in and there will not, most likely, be any immediate rate relief.

The insurance market is cyclical, it will get better eventually. When stressed out over the issue, "Dr. Thompson" prescribes BBQ!

Keep reading for the blog shared on Johnson Strategies, LLC.

### "Why are my Insurance Rates so High?"

OCTOBER 6, 2023 - OPINIONS BY SCOTT JOHNSON

As rates rise, complaints about rates rise. Agency clients want to know why their rates are so high. And, agency clients want to know what they can do about it.

Some things, like frivolous litigation, can be fixed. Other things, like Hurricanes, cannot. For Insurance agents looking to explain both, Johnson Strategies reached out to its Expert Contributor on such matters, David Thompson. He drafted the following paper you can use for clients, Home and Auto, who want to know what's going on and what can be done about it.

Feel free to use David's article in any way you see fit—send a link to your clients, copy/paste it onto your letterhead, learn from it and/or read it to them over the phone, it doesn't matter. Hope this makes your life as a Florida agent a little easier during these troubling times.

If you have any questions or comments, see "Leave a Reply" below.

Enjoy!

## WHAT FACTORS CAUSE FLORIDA'S HIGH INSURANCE RATES

By David Thompson, AAI, CPCU, CRIS

Whether it's auto or home insurance, price is a significant consideration with any household budget. This article should help you understand some of the factors involved in insurance pricing and how they can impact your premiums both present and future.

### RELEVANT FLORIDA BACKGROUND

Every single day, approximately 1,141 people move to Florida. Last year (2022) the total was 416,000 new residents.

Between 2010 and 2021 just under 3 million relocated here, adding more cars to our roads, building more houses and condominiums. Our "Sunshine State" appeals to millions of "snowbirds" and it's not just the sunshine—we also have no state income tax and a pretty good reputation for being a fun place to live and retire.

NOAA (National Oceanic & Atmospheric Administration) reports that 76.5 % of Floridians live in high-risk coastal areas. One example, in Indian River County, the population increased by 36 percent from 2000 to 2021. Records show 7,834 building permits were issued for single family houses and 1,192 were issued for multi-family projects.

While such massive growth may increase the tax base, it also places more residents in areas where cows and citrus trees used to be. And, according to Swiss Re, virtually all of them are required to have insurance which, according to the Insurance Information Institute (III), costs four times the national average in Florida.

When these factors and those that follow are combined with Florida's traditional inclination for frivolous litigation, including the national distinction as a "Judicial Hellhole," the result is higher premiums for everybody. Legislation passed in 2022 and 2023 has already begun to stem the tide of lawsuits (see "LITIGATION" below).

The following are some other factors contributing to Florida's insurance rates.

**REINSURANCE:** Just like consumers buy insurance to protect their financial assets, insurance companies buy such coverage (called reinsurance) to help fund catastrophic losses. Florida is the world's hurricane highway with some of the worst storms in history like Andrew, Opal, Charley, Ivan, Jeanne, Frances, Wilma, Irma, Michael, Sally, Ian, Nicole, Idalia, and more. Hurricane Ian damage reports have been over \$65 billion. Reinsurance costs have increased drastically over the past decade and usually average from 40% to 60% of a homeowner's entire premium. In one 18-month period in 2004 and 2005 Florida averaged one hurricane every 60 days.

**INFLATION:** The inflation rate for all goods and services over the past 15 years is higher than historical levels. But remember that insurance claims are paid based on "replacing" damaged property not the purchase or sales price of a house. While prices are constantly in flux, some reports show construction costs have increased by 19 percent since pre-pandemic levels. Combine that with what is often termed "demand surge" after a hurricane and it's clear that insurers are paying out significantly more in property losses, especially those related to catastrophes.

**INSOLVENCIES:** Some would say this one is more of a symptom than a problem, especially for property insurance. None the less, a dozen insurance property carriers have failed in the last five years—a statistic not found in any other state. Insolvencies must be funded, and claims must still be paid, usually by assessing other insurers via the Florida Insurance Guaranty Association (FIGA). This and other assessments are reflected in Florida homeowner rates.

**SEASONAL RESIDENTS WITH MULTIPLE HOMES:** Many Florida residents own secondary homes in another state. The reality is that the luxury of owning multiple homes and multiple cars in multiple states comes with a price. Such residents must weigh the benefits of this arrangement because paying premiums on multiple homes is similar to paying taxes and utilities in multiple states.

### AUTOMOBILE INSURANCE:

In 2021 there were 42,939 highway accident fatalities, the highest number since 2005 when fatalities began to fall. More people are driving more miles, causing more accidents.

In the same year, 31 percent of the fatalities were alcohol related, and that figure increased by 14.2 percent over the previous year. One report stated that Americans purchased and consumed more alcohol during the pandemic than in years past, leading to more accidents and fatalities.

Long gone are the days of going to the auto parts store and getting a headlight for \$10.00. Today's technology-equipped cars cost a lot more to repair. Because repairs for electric cars are about double that of gas cars, their insurance also costs more. Supply chain issues have led to price inflation on used cars and the price of repair parts. It's not unusual for a simple rear end collision to cost over \$5,000.

III estimates that over 20 percent of Florida automobile owners carry no insurance. A few years back, the Florida Office of Insurance Regulation (OIR) published a report showing that of the cars with "any" insurance, 51 percent had liability coverage of \$25,000 or less. Thus, uninsured motorist coverage is critical to carry, and the cost of that specific coverage has increased dramatically for the same reason.

One major national insurance company recently reported that its auto premiums will have to increase 20-25 percent a year until 2025. Some of Florida's tort reforms may help, of course. And there is currently an effort to repeal Florida's No-Fault law which might also have a salutary impact on rates.

**LITIGATION:** According to data from the National Association of Insurance Commissioners (NAIC), while Florida accounts for only 9% of the homeowners *claims* in America, it is responsible for close to 80% of America's property *lawsuits*. Litigated claims cost 5 times more than non-litigated claims.

This obviously out of control problem resulted in the most comprehensive tort reforms in Florida's history. After these reforms passed but before they became effective notices of lawsuits were filed to avoid the reforms. Under normal circumstances Florida would experience close to 120,000 annual property suits. After the reforms passed, but before they became effective, close to 280,000 notices of litigation were hastily filed to avoid application of the reforms. For a period of time the cost of those suits will be reflected in rates.

Here are just some of the tort reforms that will largely relieve the costs of frivolous homeowner litigation going forward.

**Assignment of benefits:** In an "AOB" action, a homeowner might sign a contract with a water remediation company, contractor, roofer, or automobile glass shop. In "layman's terms" this could be viewed as giving a power of attorney to a third party to represent the customer. While AOBs by themselves are not bad, abuses lead (in part) to fraudulently inflated claim payments, legal costs and thus, higher premiums. An unscrupulous AOB contractor might inflate a damage repair estimate, file a claim and demand payment. When the insurer objected to that amount, based on their own damage repair estimate, the AOB contractor filed a suit. Recent tort reforms prohibit the use of AOB's for personal and commercial residential policies, with a few exceptions. Likewise, in 2023 the legislature passed legislation prohibiting AOB contracts relating to windshield glass damage.

**Contingency Fee Multipliers:** Most plaintiff attorneys take a case based on a contingency arrangement, meaning the customer pays nothing unless they win in court. The court will look at the specifics of the case and award attorney fees based on the "lodestar" method—the number of hours spent on the case multiplied by an hourly rate.

A "multiplier" can be applied of up to 3 times the lodestar rate. Florida was the only state that did not follow the U.S. Supreme Court standard of applying a fee multiplier only in "rare and exceptional" cases. The reforms repaired this anomaly.

**One Way Attorney Fees:** Florida has a long history of generously awarding fees to plaintiff attorneys. In cases where the insurer offered a settlement amount and the court awarded just \$1.00 more, the plaintiff attorney was entitled to their fees. Legislation in 2022 and 2023 made material modifications to this concept removing a major incentive for so many frivolous suits to be filed.

**Comparative Negligence Changes:** States differ in their system of negligence. In some states, called contributory negligence states, if (as an example) a driver is just five percent at fault in an accident, they can recover no money from the other driver because they "contributed" to the negligence. Florida, until 2023, was a "pure comparative negligence state." The fault of each party was "compared" and each party recovered based on the degree of negligence. For example, a driver who was 80 percent at fault could still collect 20 percent of their award from the other party. Based on the 2023 legislative changes, if a party is more than 50 percent at fault, they cannot recover from the other party. Again, this will result in fewer frivolous lawsuits.

**Statute of Limitations For Negligence Claims:** The legislative changes in 2023 reduced the timeframe to file a negligence suit from four years to two years. This will result in fewer lawsuits over time.

**Bad Faith Claim Reforms:** An insurer can be accused of not settling a claim "in good faith" by misrepresenting facts or failing to comply with policy and/or statutory provisions. As such, they can be found to act in "bad faith" and can face substantial monetary penalties. For example, one change would require that the insurer be found not to have paid a claim or to have underpaid a claim before a bad faith claim can be filed. Prior to the reforms an allegation of bad faith was the norm even prior to an adjudication of guilt.

Other legislative reforms were also enacted during 2022 and 2023 that will have a salutary impact on rates going forward. Some are already having a favorable impact. See [Glimpses of Optimism](#).

For complete information on all the legislative changes see the report from [Florida's Insurance Consumer Advocate](#).

I would also recommend buying a copy of Scott Johnson's book, [Collapse of an Evil Empire](#), which has been endorsed by numerous legislative leaders and explains what was going on behind the scenes with respect to litigation.

## SOME THOUGHTS ABOUT REDUCING YOUR PREMIUMS

### For homeowner's insurance...

- When buying a new home make sure it's built to the current state and local building code. Obtain a wind mitigation report (About \$125) so that all credits can be applied.
- Check with your insurer or agent to confirm you're getting all appropriate discounts. Examples are new house credits, multi-policy credits, claims free credits, gated community credits, and other assorted discounts.
- Keep your roof and water heater current. Many insurers balk at ages over ten years.
- Take a proactive approach to claims mitigation. For example, consider turning the water off when you leave town for even one night, and regularly inspecting all water connections under sinks, toilets, washers, and other parts of the house. Non-weather-related water claims are the number one cause of loss for homeowners.
- Replace washer hoses every five years, even the upgraded metal hoses. Install impact glass or shutters and secure them even for a minor hurricane.

### For auto insurance...

- It is very important to maintain a good driving record and credit history. Check with your agent about potential discounts for taking a defensive driving course.
- Bundle your auto insurance with your homeowners insurance whenever possible. With some insurers the savings can be as high as 20%.
- As difficult as it may be, avoid expensive cars that cost \$75,000 or more. Look into tracking device discounts that verify good driving habits but... be aware of what data is collected.
- To avoid problems during the term of your policy, make sure your insurer/agent knows about all household residents regardless of age but especially teenagers whether of driving age or not.

## CHANGING INSURANCE COMPANIES

Be cautious when moving to a new insurance company based solely on price—a lower premium can be due to lower coverage.

Also, an insurance company can cancel a new policy for any reason within the first 60 days with just a 20-day notice. This "free look" period is used to conduct inspections (inside and out) and to check prior claims, residents in the household, credit ratings including past bankruptcies and more.

Information discovered during that first 60 days can, at times, lead to a mid-term cancellation making it difficult to find replacement coverage or to return to your previous carrier. This is also true for auto insurance.

##end##

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