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Fitch: Insurance Pullback Could Pressure CA and FL Tax Base Longer Term

Fitch Ratings-New York/San Francisco-05 September 2023: Rising premiums and reduced availability of homeowners' property insurance could drag on housing markets, development activity, overall economic growth and ultimately tax bases for certain California and Florida local governments over time, Fitch Ratings says. Insurers are re-evaluating their exposures to geographic areas with elevated catastrophe risk as they face greater losses and higher building and reinsurance costs. Insurance plays a key role in securing mortgages and enabling rebuilding following natural disasters.

There were 119 natural catastrophes in 2022 resulting in $98.8 billion in insured property losses, up from 103 catastrophes costing $93.3 billion in 2021, according to the Insurance Information Institute (Triple-I) and Aon. This compares with annual losses averaging $62.1 billion (adjusted for inflation) over the prior eight years. Average homeowners' insurance premiums in Florida were up 11% in 2020 from the year before, to $2165, the highest in the country, and were up 16% from 2018 in California, according to Triple-I.

State Farm, Allstate, and Farmers have announced they will cease issuing new home insurance policies in California, with AIG and Chubb also adjusting insurance coverage in the state. In Florida, some insurance companies have announced reduction or cessation of home and condo coverage, including Farmers and Allstate's Castle Key subsidiary, and seven entered liquidation in the last 18 months. The Florida Insurance Guaranty Association recently approved a 1% emergency assessment on all covered lines of business (other than auto) to cover claims owed by United Property & Casualty Insurance Company, one of the liquidated insurers.

Consumers who face insurance non-renewals may turn to the state insurers of last resort, California's Fair Access to Insurance Requirement (FAIR) Plan Association or Florida's state-owned Citizens Property Insurance Corporation (AA/Stable). The FAIR Plan is a syndicated insurance pool requiring the participation of all California-licensed property and casualty insurers, and its rates are notably more expensive on average than standard property insurance policies.

Citizens is the largest insurer in Florida with over 1.3 million policies in force, with policy count and exposure growing significantly over the last three years. Florida regulators recently asked Citizens to submit a new rate proposal following Citizens' proposed average rate increase of 12.6% for homeowners' multiperil policies.

Both Citizens and the Florida Hurricane Catastrophe Fund (AA/Stable), the state-sponsored reinsurer, can levy assessments, subject to a cap, on nearly every property and casualty insurance policy in the state in order to pay claims. Increased storm frequency and severity raises the likelihood of levies from both, placing an additional burden on the assessed base.

Recovery following natural disasters may be delayed or incomplete if there are greater numbers of those who are under-insured or uninsured due to affordability or non-renewal issues. High-risk areas

could be left with a smaller tax base if hurricane or wildfire damage leads to permanent relocations, or if these areas find it difficult to attract new residents.

Fitch has not observed these effects playing out to date, as insurance is one of many factors in home purchase decisions. However, pressures on housing demand could be amplified with increasing natural disasters and insurance markets in which the insurers of last resort are costly or impose higher assessments to cover increased claims.

Policymakers have several tools to support property insurance market sustainability. Florida's legislature has passed a series of bills with the aim of reducing insurance litigation, improving claims and payout timing, and containing Florida Citizens' insured base. California's Department of Insurance is hosting discussions regarding insurance companies' potential use of catastrophe models to estimate potential losses and inform rate setting. The effectiveness of policy actions is increasingly important to support housing market and long-term economic growth prospects.

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