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With Less Reinsurance for Reinsurers, Prices Set to Rise Again for Florida Carriers

By Jerry Theodorou | October 25, 2022



Reinsurance is insurance bought by insurance companies

It has been three weeks since Hurricane Ian struck Florida on Sept. 28, 2022. The storm took at least 119 lives and caused estimated insured losses ranging from \$31 billion to \$74 billion, with most estimates in the \$60 billion neighborhood. These damages exceed those caused by any other U.S. natural catastrophe, with the exception of Hurricane Katrina. Above and beyond the tragic ongoing personal and economic hardship wrought, Ian will leave a troubling legacy in Florida's insurance and real estate markets. Prior to Ian, homeowners insurance premium for Floridians was already three times the national average. The state's property insurance market was already faltering and under extreme stress, with half a dozen insurance carriers in the state declaring insolvency in 2022 alone.



And this is just the beginning. The storm's aftermath will cause insurance rates to increase, rendering insurance coverage so out of reach that Florida home values will drop for want of buyers. At the core of these rising insurance rates is the shrinking availability and affordability of reinsurance. Reinsurance acts as a shock absorber in the insurance industry by assuming risk above and beyond what insurance companies are willing to bear. Insurance companies buy one type of reinsurance—excess of loss reinsurance—to set a cap on the most they are willing to pay out in claims from a major loss event. When losses burn through this maximum, insurers pay losses up to its maximum limit (the retention), and the rest is ceded to reinsurers. Without reinsurance, insurers' face existential threats from catastrophes such as Ian, so they transfer a portion of their risk to the reinsurance industry to protect their capital base. Insurance, at its heart, is the management and assessment of risk, and reinsurance allows insurers to measure and account for more of it.

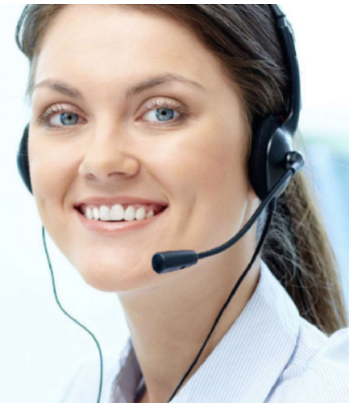
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8 things you need to know about flood insurance.

Even homes located in low or moderate flood risk areas are five times more likely to experience a flood than a fire.



1. Know your coverage

According to insurance industry statistics, water damage accounts for 40 percent to 50 percent of all claim costs. But in the insurance world, there are different types of water damage and each type is covered (or not covered) by a particular type of insurance.

2. Check for private provider coverage

- Sewer backup coverage. This will protect your client's home from a sewer backup, septic backup or sump pump malfunction or failure. A sewer backup refers to the discharge of "dirty water" into a home from a septic tank, drains or pipes. This type of flooding commonly occurs when rain or snow builds up in a municipality's sewer system.
- Overland flooding. This is when water enters a home from a point at or above ground level. Explain to your client that this most often occurs when there is a torrential downpour, during spring runoff or when a nearby river or lake breaks its banks and overflows. Remind your clients that this coverage will only protect them from damage caused by water that came in through downspouts, eavestroughs and drains.
- Groundwater flooding. This type of water damage differs from overland water damage because it takes place below the ground. Natural weather patterns are a common cause for groundwater damage. This includes flooding from nearby water sources or a large amount of rain flow in a short period of time. While insurance coverage to protect from ground-water flooding isn't always available, if your clients are able to get it, the coverage will protect them from the cost of damage caused when water suddenly and accidentally enters through foundation walls or floors.

3. Prevent water damage before it is a problem

4. Consider adding flood insurance

5. Expect premiums to continue increasing

6. Expect limited coverage

7. Look for upgrade rebates

8. Add separate coverage for high-value items

Contact us for more information about flood insurance coverage.

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