Rough Notes®

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FLORIDA
SPECIAL REPORT
2024

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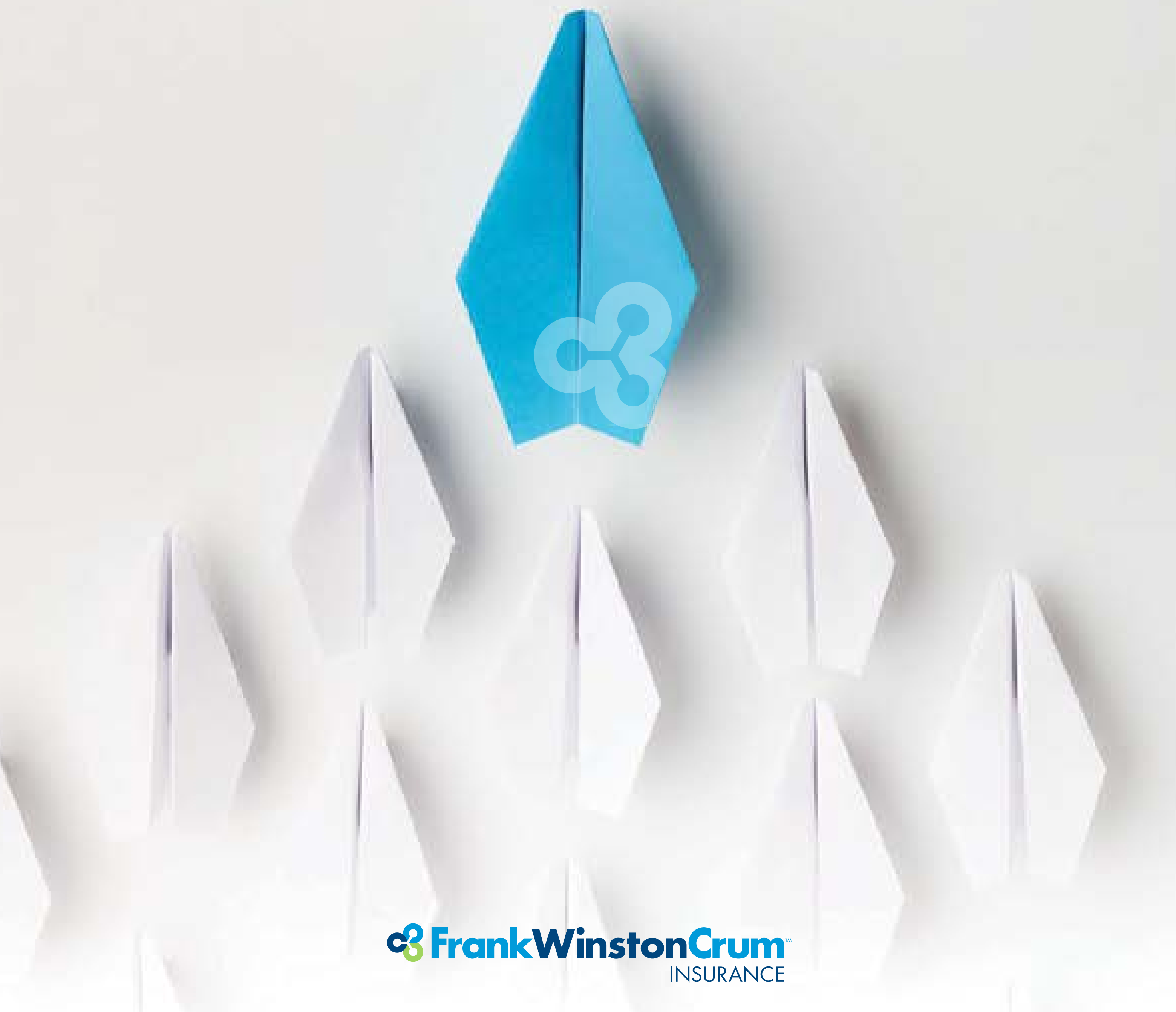

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A NEW HURRICANE SEASON LOOMS; OLD ISSUES PERSIST

A market in flux finds some participants leaving and others finding their way in it

By Josie Novak

Given its 1,350 miles of sun-soaked coastline, Florida offers a picturesque location in which to live. Between 2017 and 2023, more than 1.6 million people moved to the Sunshine State. During that time, three of the five costliest U.S. hurricanes also made landfall within the state: Hurricanes Harvey, Ian and Maria.

The rise in loss costs and litigation-related expenses have compounded the pressure confronted by the state's insurers and consumers. While state legislators have moved to provide relief, these reforms remain relatively new.

Market issues

Whether it's for a car, home or business, insurance coverage has morphed into a more challenging proposition for many Floridians. The average Florida homeowners policy premium has risen an average of 102% in just the past three years, according to the Insurance Information Institute. For policyholders, these increases are occurring on a compounding basis year over year and taking on a larger role in household budgets.

In this hard market landscape, insurance agents are tasked with the unenviable job of placing coverage for homeowners at indisputably higher prices. Economic and social inflation as well as the growing trend of secondary peril activity remain as major drivers of the higher premiums. Reinsurers have also responded by raising prices and adjusting capacity on property-related coverages with direct carriers, who in turn are assuming more risk and offsetting elevated costs through higher premiums.

These financial issues have unfavorably impacted direct carriers' balance sheets through volatile operating results and subsequent surplus erosion. Many direct carriers have exited the Florida homeowners market altogether or have materially reduced exposures, creating an availability issue.

The broad reason for that absence of coverage has been the inability to capture an adequate price for the risk. Simply, premiums are too low for companies to pay the expected claims and associated costs. While we have seen recent improvements to some degree in the operating performance of Florida writers, this will not necessarily translate into near-term rate relief for consumers.

Improvements in results have largely been driven by improved investment returns; carriers are still striving to achieve rate adequacy and will continue to push rate.

Insurer of last resort

The departure of carriers and tightening of accumulations by others has led to significant growth for the state-run Citizens Property Insurance Corporation, which operates as an insurer of last resort. Citizen's policy count swelled as a result and topped 1.4 million policyholders last September—more than double the policy count of two years prior.

A major loss event has the potential to impact Citizen's surplus materially and ultimately strain its financial stability. In that event, a surcharge to every single consumer in the state of Florida might apply—even those who were not a Citizens policyholder. To prevent this from occurring, Citizens implemented a depopulation program to reduce the volume of its policies and exposures. Since October 2023, Citizens has moved about 350,000 policies to a handful of private insurers.

Previously, takeout offers applied only to primary residences. However, the Florida Legislature passed a bill to allow excess and surplus (E&S) lines insurers to make offers on seasonal homes, provided that the companies have an AM Best Financial Strength Rating of A- (Excellent) or higher, and the residences do not have homestead property tax exemptions. This bill was still subject to final approval in early April. It remains to be seen whether E&S companies will participate and how much of these take-out policies they will assume.

The E&S segment acts as a safety valve for declining capacity in the commercial and personal lines markets. E&S markets are not regulated like admitted primary carriers and are not subjected to rate increase reviews. This could potentially leave seasonal residents with large premium increases going forward and give agents and brokers the unpleasant task of delivering the expensive news.

That said, the positive takeaway is that there may be more participants and availability within the market, fostering some level of competition. However, these E&S companies also do not participate in the Florida Insurance Guarantee Association (FIGA), rendering their policyholders free of any future insolvency-related surcharges, but also leaving them unable to recover losses should a company fail.

Florida had just one property insurer enter into liquidation in 2023, according to FIGA; however, six companies were liquidated in 2022. This exemplifies the need for awareness around the capitalization and performance of new companies entering a market.

Addressing the legal environment is a positive note that may ultimately make conducting business across the state more attractive; however, the effectiveness of reforms will require additional time to gauge any success.

Legislative action

Another critical issue that affected Florida's property insurance market involved the use of assignment of benefits (AOB), under which claims could be assigned to and pursued by a third party. This fueled a pattern of elevated claims costs brought on by unscrupulous contractors and litigation financing. The end result eroded the operating results for primary carriers.

To combat these AOB claims, Florida Governor Ron DeSantis called a special legislative session in December 2022 that yielded a property insurance reform bill. Included in this legislation was the removal of one-way attorney fees and a restriction on the use of AOB practice for policies issued after January 1, 2023. Additionally, the timeframe to file a claim was reduced to one year from the date of the loss, and the insurers' response time on claims was also tightened.

The legislative response was viewed as a key effort in the state's ongoing pursuit of a more stable market, ensuring fairness and accessibility while addressing challenges faced by both insurers and policyholders. While still early, a downward trend in claims-related litigation has been observed, not without a flurry of litigated claims before the tort reform took effect.

DeSantis's proposed 2024 budget includes some support for homeowners who have experienced double-digit rate increases in the past few years. His administration proposed a one-year exemption on property taxes, fees, and assessments for homeowners with properties valued up to $750,000.

According to administration estimates, the savings could average up to approximately 6% on homeowners policies. Additional bills introduced in the 2024 Florida legislative session include a $200 million infusion into the My Florida Safe Home program. The program was designed to match up to $10,000 of the cost of improvements to protect against tropical storms and hurricanes.

Also ratified was a new My Safe Florida Condo pilot program designed for Florida condo associations to get free mitigation inspections and the opportunity to apply for grant improvements to adopt certain hurricane specifications that conform to applicable building codes. For primary carriers, if condos and homeowners improve the durability of their home, it could translate into a more favorable view of risk that has the potential to benefit premium charged to insurers.

At this time, each bill has been passed by both the Florida House and Senate; however, we must wait to see if the bills will get a signature from Governor DeSantis.

Addressing the legal environment is a positive note that may ultimately make conducting business across the state more attractive; however, the effectiveness of reforms will require additional time to gauge any success. There are also the parallel issues of rising property reinsurance, a pending hurricane season and increased secondary peril-related events.

Positive effect

The reforms and declining Citizens policies in force mark a step in the right direction for Florida's insurance industry. Through the end of 2023 we have seen a handful of new entrants move into the market, some of which have begun to participate in Citizen takeouts. These new companies may have a comparative advantage in which they can set the appropriate rates at the onset and avoid playing catch up.

Naturally, most consumers base insurance-purchasing decisions on price and individual coverage requirements. Time will tell if insurers' operating results will continue in the right direction and there remains work to do to improve underwriting results and mitigate hurricane risk.

Accordingly, the market remains somewhat in flux, with current conditions having both pushed some participants out and attracted others to it. ■

The author

Josie Novak is a financial analyst at AM Best and monitors a portfolio of rated property/casualty insurers. For more information, visit ambest.com.

ORDER IN THE TORT

Florida's year-old Tort Reform Act means big changes for lawsuits in the Sunshine State

By Jonathan Gerdes, Terra Wilhelm, Esq., and William Woods, Esq.

Over the last 30 years, Florida has become more known in legal circles for frivolous lawsuits than warm winters and white sandy beaches. The state's army of "billboard lawyers" touting huge judgments and posting endless TV ads promise cash settlements and quick paydays but rely on mass filings of questionable claims to do so. Last year, the Florida Legislature took action to improve the state's legal landscape.

The Florida Tort Reform Act passed in March of 2023. Supporters of the law included the Florida Chamber of Commerce, Associated Industries of Florida, the Florida Insurance Federation, the National Federation of Independent Business, the Florida Justice Reform Institute, and the Florida Defense Lawyers Association (FDLA). (Note: Author William Woods serves as the construction chair for the FDLA's construction litigation committee, and author Terra Wilhelm is the in-house chair for the FDLA's in-house committee.)

The Tort Reform Legislation introduced many changes to Florida's tort law with the legislative goal of reducing excessive damages awarded and addressing rising insurance costs. Most important, the Tort Reform Act limits the amount of time a potential plaintiff has to file a lawsuit after the occurrence of an incident or accident. Several of these limitations have yet to become effective, but we anticipate that the increased time constraints will have a positive impact on bodily injury, construction defect, and other injury and property-based tort claims.

Previously, the longest a potential plaintiff had to bring a construction defect claim, regardless of when they discovered a perceived issue, was 10 years, with an additional year to bring a downstream claim against a subcontractor. Lawyers therefore began targeting buildings immediately before the 10-year deadline, when the building would have the most obvious deterioration, even if due only to normal wear and tear. This final filing deadline was shortened to seven years (with an additional year for the downstream claim against the subcontractor) and goes into effect July 1, 2024. As such, we anticipate a further increase in construction defect filings leading up to the July effective date of the shortened limitations period.

Another significant impact of the Tort Reform Act relates to calculating the value of claims. Florida previously used a "pure comparative fault" basis. This meant that plaintiffs could collect damages to the extent the damages were not their fault—even if it was just 1%, and the remaining 99% was the fault of the plaintiff themselves. The Act shifts

Florida's damages calculation to a "modified comparative fault" basis. Under the new model, the plaintiff is barred from recovery if they are found to be 51% or more at fault in an accident. While this is a huge development in auto accident and premises liability slip and fall claims, we anticipate substantial effects on construction and job-site safety claims as well.

A recent matter demonstrates the impact of this shift. In the subject claim, a group of bored day laborers climbed an unused crane that was sitting on their job site. The crane was not anchored properly to the ground, and when the workers ascended to the top their weight caused it to tip over. This resulted in $300,000 worth of equipment damage and several injuries, including one in which a worker was pinned under the crane.

In the past, the determination of fault for this incident would be split among the laborers (for taking the ill-advised climb in the first place) as well as the construction company that hired them, even though the crane had nothing to do with their job, and, potentially, the crane rental company and crane manufacturer. Lawyers would then seek to collect on insurance claims for everyone involved. Under the new standard, if the day laborer claimants were determined to be 51% or more at fault for the incident, they would not be entitled to *any* damages. This change makes questionable liability claims much less appealing to plaintiffs' lawyers because all damages are cut off upon determination that the potential plaintiffs were slightly-more-than half at fault.

The legislature intended the Tort Reform Act to increase the risks to potential plaintiffs and their lawyers around filing frivolous cases. Plaintiff lawyers must be more selective about the clients they accept and the claims they bring, at the risk of fee exposure (i.e., if they take an uncertain case to trial and lose, they may have to pay the defense lawyers' fees, too). By changing the financial risk/benefit calculus around tort claims, the Tort Reform Act was intended to decrease the number of frivolous lawsuits being filed.

While the Tort Reform Act of 2023 may appear to be the final ruling on lawsuits in Florida, it is important to remember that just as this Act ushered in change, the legislative landscape is subject to revision again as the members and politics of the legislature convert. The "billboard lawyers" are sure to change tactics to keep their revenue streams flowing, and every new election cycle brings with it the risk that the legislature could make further changes, and potentially even invalidate the Act all together. Already, two additional tort reform bills are working their way through the Florida Legislature, though their fate is uncertain as of this writing.

In the interim, the Tort Reform Act appears to have a positive impact to Florida's legal system. As for the state's reputation? The verdict is still out. ■

The authors

Jonathan Gerde and Terra Wilhelm, Esq., are chief claims officer and vice president of casualty claims, respectively, at Frank Wilson Crum Insurance. William Woods, Esq., is managing trial attorney of Woods Law Group, Frank Winston Crum's staff counsel office.

BUILDERS RISK TRENDS

Marketplace understanding helps agents skillfully advise and protect clients

By Christopher Reid

To properly protect your clients and their high-value homes, it's essential to understand the latest trends in the builders risk markets—and how these trends may affect insureds and their coverage. The latest builders risk trends in the Florida marketplace include:

Capacity. The capacity in the builders risk market—specific to Florida—has had a huge impact on availability for high-value homeowners (HVH). The availability of reinsurance for a variety of carriers has limited capacity, creating a true need for agents to understand what's available.

In the past, obtaining builders risk insurance, including full wind, storm, and flood coverage up to $10 million, was significantly easier. Now, with changes in the marketplace, carriers have had to change the way they approach large risks, such as including sub-limits to wind coverage. Previously, an agent could get full coverage for a large construction project, but now the same carrier might limit your wind coverage to $5 million instead of $10 million because of capacity issues.

Inflation. Inflation still has a major effect on construction costs and, therefore, has a direct impact on replacement cost value for high-value homes. Materials that previously cost $500 per square foot may now start at $750 per square foot—a 50% increase minimum.

Because of inflation and resulting price hikes, insureds will need more coverage. This correlates directly to limited capacity issues. Agents need strong carriers who can cover these increased costs *and* have availability in the Florida marketplace. Agents need to do their homework on the proper inflation coverage and consider inflation when quoting a new project.

Policy exclusions. Another key trend that agents should keep an eye on is inclusions and exclusions to policy forms. In Florida, that means understanding the amount of wind and storm coverage included in any project. A $5 million home could have a 5% deductible or more on wind, and the insured would incur that deductible if there was loss from a wind-related event. It's critical to recognize that the homeowner may also have a mortgage or other financial institution requirement that dictates how much coverage is needed, based on the terms of the loan.

Additionally, agents should understand whether flood coverage is included and if it's a requirement. An agent may try to offer flood coverage as due diligence and a mortgagee may require it. There are private flood markets

Because of inflation and resulting price hikes, insureds will need more coverage. ... Agents need to do their homework on the proper coverage and consider inflation when quoting a new project.

that could offer coverage on builders risk if needed.

Agents also should be aware of any exclusionary language on water, including a water sub-limit, as water damage in Florida can be significant. Since insurance companies need to protect themselves against water damage claims, there may be a larger deductible or sub-limit to enable the policy to be issued. Sub-limits have become increasingly prevalent in the Florida marketplace.

Keep in mind what an insured does (and doesn't) need in their policy. For instance, if an insured is doing interior renovations on their high-end, newly built, up-to Florida Building Code condo, they may not need wind coverage. If agents are able to confirm wind isn't required on any renovation risks, not only would it open up more markets willing to consider quoting, but it could also dramatically reduce the premiums.

CAT exposures. The entire state of Florida is classified as a CAT (catastrophe) market. Wind-related events are the largest CAT exposure in the state, but there are other risks, most notably flooding. In addition, the Gulf Region of Florida is experiencing more wildfires, which means that in certain locations, policies could exclude wildfire deductibles—or decline them entirely—because of wildfire risks. We're seeing this in other markets, like California and Texas, and it's now trending in Florida, too.

Consider how much damage Hurricane Ian caused to Florida's West Coast in September 2022. This Category 4 storm had wind gusts up to 160 mph, brought 18-foot storm surges, dropped 20 inches of rain on the area, and damaged 97% of all structures in Ft. Myers Beach.

The devastating impact of that massive storm caused the second-largest insured loss on record (after 2005's Hurricane Katrina), with $53 billion to $74 billion in insured damages. This illustrates the importance of checking policies for wind and flood coverage.

If an insured was in the middle of a renovation in Ft. Myers during that storm, they would likely have experienced costly damages, and the homeowner would have been covered only if proper insurance was in place. Agents need to know what's included on a builders risk policy, keeping CAT exposures in mind.

Relocations. Florida has seen an influx of relocations since 2020. In 2021, more people moved to Florida than to any other state in the United States; and in 2022, more than one million people moved to the Sunshine State. These relocations spurred higher-than-normal real estate purchases as well as renovations and new builds, which had a huge impact on capacity.

The relocations came amid supply chain disruptions, labor shortages, and soaring inflation, causing disruptions, delays, and price increases for building projects. While the massive relocations from 2020 have slowed somewhat, continuing labor shortages, supply delays, and higher prices remain. As a result, a project that should have taken 18 months to complete may now take two years or more, so be sure that clients have proper coverage—including a multi-year term policy to cover the insured in case of delays.

If insureds don't have longer-term coverage in place and encounter delays in their projects, they will have to extend their policy or potentially remarket it mid-term, which can be complex, challenging, and costly.

As trends come and go, one thing is abundantly clear: Insureds need to work with agents who understand this marketplace. Builders risk agents must be subject matter experts who know what to ask and recognize exactly what needs to be included on builders risk policies to avoid problematic coverage gaps.

It's essential for agents to truly understand the builders risk markets so they can skillfully advise their clients on how to best protect their investments. ■

The author

Christopher Reid is vice president at Jencap in Red Bank, New Jersey. Reid is a 30-plus year sales and marketing executive who specializes in nationwide excess and surplus high-valued homeowners, builders risks and private flood. Jencap is one of the largest wholesalers in the United States, with expertise in wholesale brokerage, binding authority, and program management. Its specialized divisions and affiliate organizations provide niche underwriting prowess, broad market access, and nationwide influence. Headquartered in New York, Jencap works with more than 15,000 independent agency partners. For more information, visit jencapgroup.com.

STAYING AHEAD OF THE NEXT STORM

Keeping up to date on changes taking place in the flood insurance market

By Brad Turner

It's no secret that catastrophes like hurricanes and flooding aren't going anywhere, especially in Florida. Flood insurance requirements and the pursuit of flood coverage have evolved alongside a hardened insurance market—and the availability of sustainable flood products has been challenged by capacity constraints, increased reconstruction costs, and heightened risk exposures, especially in catastrophe (CAT)-exposed coastal areas.

As the market adapts to these challenges, homeowners must stay up to date and aware of changes so they can be prepared for the next flood's potential damage.

For buildings in coastal regions, foundation types are becoming a heightened focus area within the market. There is an increased emphasis and evaluation on foundations built directly on the ground, without enough elevation to mitigate in a flood event.

Owners of risk locations that are exposed to tropical storm surges, especially those located in extreme exposure areas such as barrier islands, are finding it more difficult to find primary coverage options outside of the National Flood Insurance Program (NFIP).

In these CAT-exposed areas, market capacity will continue to be selectively deployed, as carriers attempt to balance the heavy wind and flood exposures that exist in these coastal corridors. In turn, homeowners are presented with challenges as they are faced with the rising waters surrounding their homes and properties.

Greater need, higher limits

Many Florida homeowners are increasing their pursuit of flood insurance coverage, in part due to Citizen's new requirement for all Florida policies to include the purchase of flood insurance by 2027. This requirement is a proactive attempt to motivate movement from the state's overpopulated Citizens program, while simultaneously preventing bleed-through claims around wind and flood during tropical events.

The additional coverage requirements, combined with recent tropical activity and inflated construction costs, will prolong the increased pursuits of excess flood limits in coastal and high-value segments. Traditional primary flood limits alone are widely considered to be inadequate to cover the rapidly expanding property exposure throughout the state of Florida.

The newly expanded flood requirements through Citizens will expectantly promote a heightened flood awareness among consumers who have already been challenged with increased insurance costs, as agents and consumers attempt to balance costs versus exposure.

This new requirement should help increase flood uptake; however, it will ultimately rely on affordable options in an already constrained market.

> *The advantages of parametric risk transfer include a rapid payout directly to the insured, as well as sensor-based flood triggers with no physical adjustment necessary.*

Expanded capacity

In areas of Florida that are seemingly more at risk, like high-value homes and commercial properties, there is a challenge to fully insure risks and handle capacity constraints.

Our flood practice group has strategically aligned with our carrier partners to deploy new capacity to fulfill the increased flood requirements in the state. In addition to leveraging expanding expertise, the operation is utilizing the latest risk modeling and internal data analytics to evaluate flood opportunities to place the more challenging risk characteristics, such as on-ground foundations, high-value placements, and barrier island risks.

Which risks are worth it?

With storm surges and tropical events increasingly common in Florida, it is crucial for property owners to stay nimble and flexible when searching for the best coverage options for a property.

Risk transfer options, such as parametric flood coverage, are alternative choices that support insureds seeking quicker payouts. An example of this is FloodFlash, one of our preferred carriers, which provides a broad form of flood insurance for commercial and public entities at higher risk of flooding.

Additionally, parametric risk transfer options can offer coverage for extreme risk properties and non-traditional flood risk types, including golf course greens, amusement parks, dealer open lots, farmland, and builders risk.

The advantages of parametric risk transfer include a rapid payout directly to the insured, as well as sensor-based flood triggers with no physical adjustment necessary. Other benefits include versatile and customizable policy limits that are structured to meet an insured's budget and account for situational risk constraints.

Understanding the market, benefits of a carrier

While placement of flood risk has become exceptionally more difficult in Florida since Hurricane Ian, partnering with a wholesaler or broker specialist for flood coverage can help with the placement and sustainability of accounts in the market. For a broker or consumer evaluating options, it is important to consider up-front costs as well as on-going cost experience, coverage inclusions, and overall service and claims experience.

We always encourage home and property owners to evaluate their private market options, including parametric flood coverage, to determine what makes the most sense from a coverage and exposure standout for them. Finding a carrier with an established track record within the market is highly recommended.

Greatly reduced costs upfront can oftentimes be exacerbated by increased costs or non-renewals later. Sustainability of flood market options should be part of a focused criterion in an environment with increased risk. ■

The author

With a decade of industry experience, Brad Turner has spent his insurance career exclusively with Burns & Wilcox, starting as a personal lines underwriter, specializing in coastal property. Brad currently serves as associate vice president, national product manager, Flood, in Morehead City, North Carolina.

Brad leads the Burns & Wilcox flood practice for residential and commercial property—an underwriting group that evaluates flood risks and manages a portfolio of exclusive flood products. Brad also provides flood consultation for partner agents and underwriters and helps organize and present flood marketing initiatives across the country. He is best known for his relationship and risk management skills, flood technology and underwriting development.

Brad graduated from DeVry University-Illinois with a bachelor's degree in technology, focusing on computer/information technology administration and management.

THE CRUCIAL ROLE OF CANINE LIABILITY INSURANCE IN PET OWNERSHIP

An essential component that offers financial protection, legal liability coverage and promotes a safer community

By Anthony DiBuono

Owning a dog is a rewarding experience that brings joy, companionship, and countless cherished moments. However, along with the love and happiness that comes with canine companionship, there is also a responsibility that pet owners must bear. One essential aspect of responsible dog ownership is having canine liability insurance. This insurance plays a crucial role in protecting not only the dog owner but also the community at large. Let's explore the reasons why canine liability insurance is important and how it contributes to a safer and more secure environment.

1. Financial protection. One of the primary reasons to invest in canine liability insurance is financial protection. Dogs, regardless of their breed, size, or temperament, can unexpectedly cause harm to people, other animals, or property. A simple act, such as a dog bite or unintentional property damage, can lead to significant financial consequences. Canine liability insurance provides coverage for legal expenses, medical bills, and damages, helping dog owners to avoid financial strain in the event of an incident involving their pet.

2. Legal liability. In many jurisdictions, dog owners can be held legally responsible for the actions of their pets. If a dog bites or injures someone, the owner may face legal consequences, including lawsuits and claims for compensation. Canine liability insurance serves as a crucial tool to mitigate legal liability, covering legal defense costs and potential settlements. Without this insurance, dog owners may find themselves in a challenging legal situation that could have lasting financial and personal ramifications.

3. Breed-specific regulations. Certain breeds may be subject to specific regulations and restrictions due to perceived risks associated with their behavior. Many insurance companies may refuse coverage for certain breeds, or they may charge higher premiums. Canine liability insurance helps bridge this gap by providing coverage regardless of the breed, ensuring that all dog owners have access to the necessary protection.

4. Protection for homeowners. For individuals who own homes, having a dog without liability insurance can affect their homeowners insurance coverage. Some insurance companies may exclude certain breeds or charge higher premiums for dog owners, while others may cancel policies altogether. Canine liability insurance can help home owners maintain their existing coverage, ensuring that their homes remain protected.

5. Promoting responsible ownership. By requiring canine liability insurance, authorities encourage pet

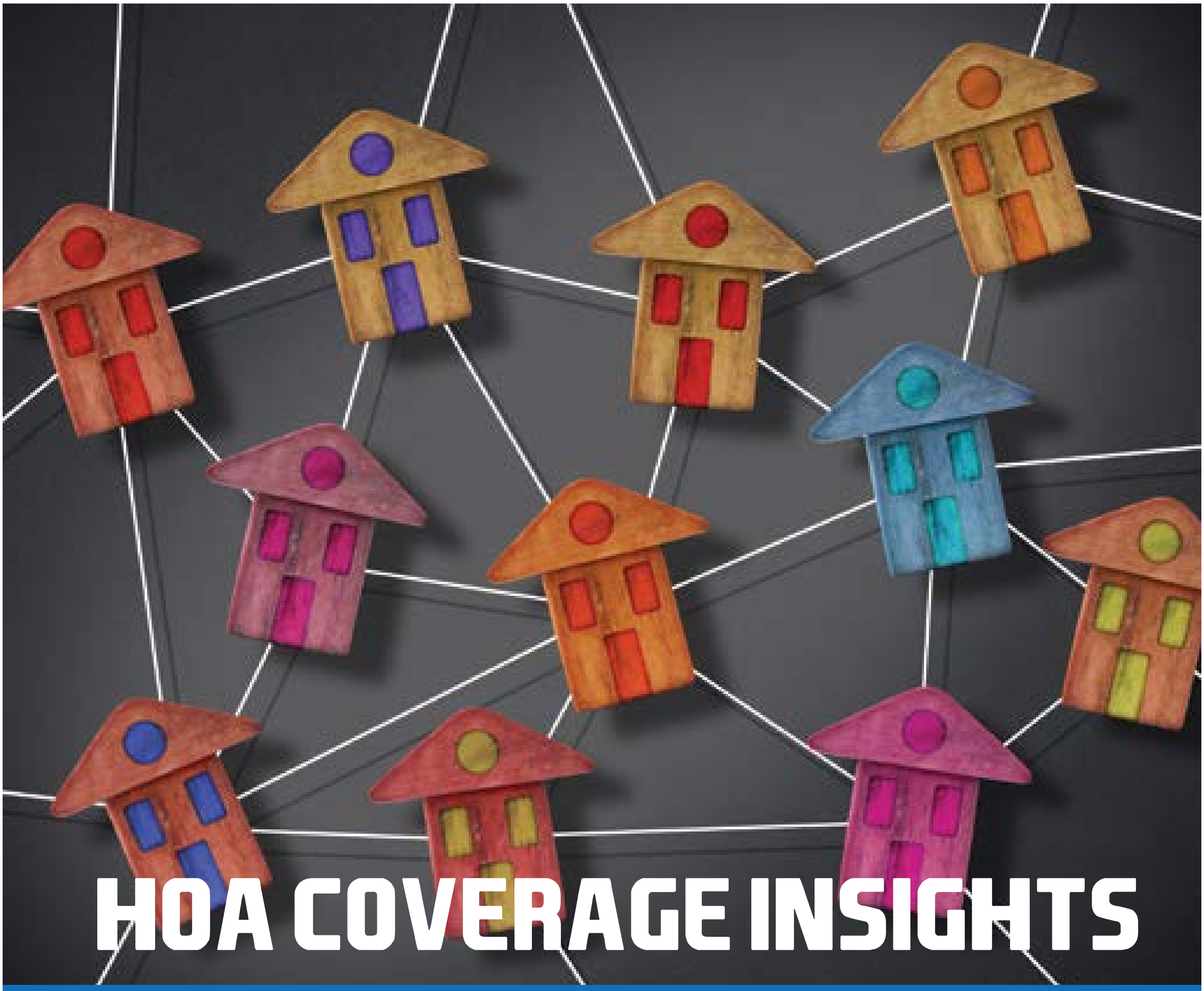
In many jurisdictions, dog owners can be held legally responsible for the actions of their pets. If a dog bites or injures someone, the owner may face legal consequences … .

owners to take responsibility for their dogs. It incentivizes owners to invest time and resources in proper training, socialization, and overall responsible pet care. This, in turn, contributes to a safer and more harmonious community where pets and people can coexist peacefully.

Canine liability insurance is an essential component of responsible dog ownership, offering financial protection, legal liability coverage, and promoting a safer community. It is a proactive measure that benefits both dog owners and the public, ensuring that the joys of pet ownership do not come at the expense of financial stability or the well-being of others. As a responsible dog owner, investing in canine liability insurance is not just a choice but a commitment to the safety and welfare of everyone in the community. ■

The author

Anthony DiBuono is director of operations at Amelia Underwriters Inc.



HOA COVERAGE INSIGHTS

Does a homeowners association without employees really need workers compensation insurance?

By Gary Deck

The topic of workers compensation insurance in an HOA is consistently part of conversations with board members and community managers. Most commonly, that conversation starts with a question, "Why are we paying for workers compensation insurance when we don't have employees?"

While that is a reasonable question, there is a reason behind the purchase.

Only licensed and insured contractors should be hired for services to an HOA. What if the board or the management company rehires a contractor that has worked for the community multiple times and they fail to verify whether the contractor is current on their insurance coverage? It is possible the contractor missed payments or forgot to renew the policy.

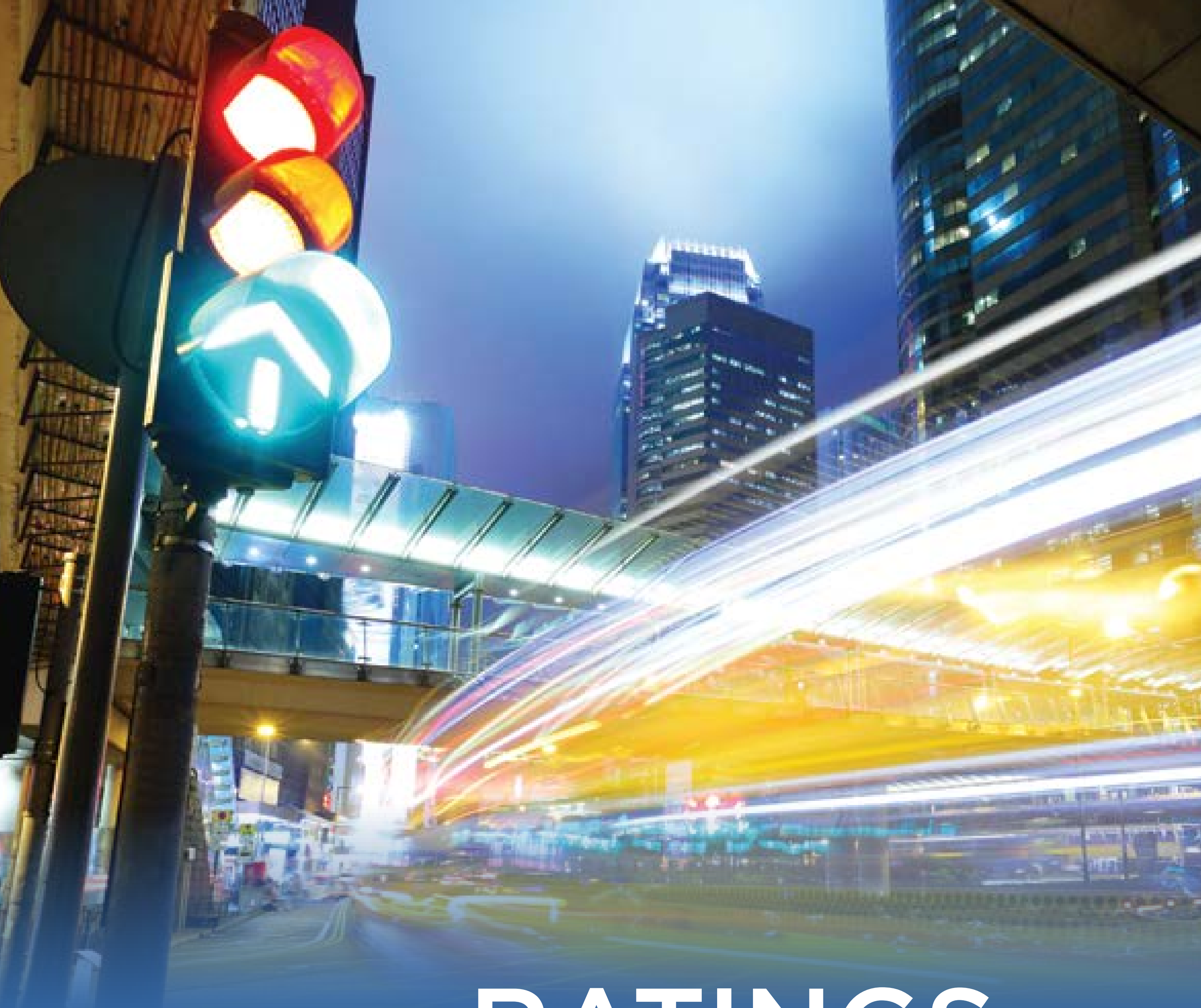
A low-cost "if-any" workers compensation policy can backstop errors made in this scenario and save the working relationships of the board or management company with the broader community. By hiring uninsured vendors or contractors, the management company and the HOA can be held liable for workers compensation claims submitted by their vendors.

The recommendation is to purchase workers compensation insurance to protect against the rare occasion where an HOA may be deemed the employer of a contractor's employee.

The landmark case that created this best practice recommendation of workers compensation insurance for an HOA is from 2007. In Heiman v. *Workers' Compensation Appeals Board (149 Cal. App.4th 724)*, an unlicensed and uninsured contractor was hired to install rain gutters on a condominium building. An employee of the contractor was injured on the job, and the Workers' Compensation Appeals Board determined the hiring party was jointly and severally liable for workers compensation.

Worth noting in the *Heiman* case, the management company was the hiring party, not the HOA, so the management company was actually deemed the employer.

To protect the management company and the HOA against unwanted workers compensation claims, the HOA should purchase a zero ($0) payroll (aka "if-any") workers compensation policy. An "if-any" workers compensation policy provides a backup should a contractor's policy fail.



"If-any" workers compensation, including coverage for volunteers

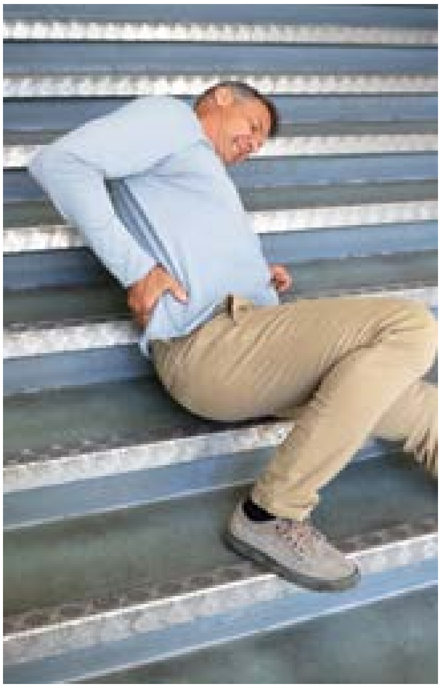
In addition to the if-any exposure addressed in *Heiman*, the HOA and the management company are at risk of owing workers compensation benefits to injured volunteers who perform work on behalf of the HOA.

Two realistic scenarios:

- An HOA member volunteering at a "Saturday Community Clean-up Day" is injured.
- A volunteer board member slips and falls during a site inspection.

Although the general liability policy provides bodily injury coverage, bodily injury to an employee (the HOA volunteer) is specifically excluded, so the exposure is moved to a workers compensation policy. To protect its volunteers, board members, and committee members, the HOA should purchase a workers compensation policy.

The board and the entire community rely on their volunteers to keep the community standards at their peak level for the lowest possible cost. Volunteers create a sense of teamwork within the community and bring neighbors together. Showing support for a volunteer who gets injured supports the continuation of volunteer led community improvement projects.



A low-cost "if-any" workers compensation policy can backstop errors made in this scenario and save the working relationships of the board or management company with the broader community.

Most carriers providing workers compensation insurance to HOAs will include coverage for board members and committee members, but does the policy cover volunteers? Considering compensation is not provided for board or committee participation (or shouldn't be), everyone is a volunteer. What the carrier needs to know is who is supposed to be working (or volunteering specifically for) the HOA.

To protect each of these volunteers, it is important that volunteers be named to a committee created by the board and the names of participants recorded in the minutes of a board meeting. In most states, a workers compensation policy should include a "voluntary compensation endorsement" to extend coverage to these volunteers.

The payments and injuries in the chart below are actual examples of paid claims on Florida "if-any" workers compensation policies.

Refusal to buy coverage

The HOA board is charged with making decisions it feels are in the best interest of the HOA. Management, as an agent of the HOA, should work with an insurance professional to present the details of the *Heiman* case and the availability of "if-any" workers compensation coverage to protect their HOA's exposure.

If the board opts not to purchase coverage, managers and management firms might consider a procedure to have a board member sign a "refusal/rejection of coverage" letter, and a copy should be provided to the HOA's broker/agent to be kept on file in the case a workers compensation claim arises. ■

The author

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Claim Paid	Injury description	Job description	Accident description
$172,752	Fracture	Treasurer	Escorting Unit Owners - Fell Down The Stairs
$77,403	Fracture	Board Member	Meeting With Unit Owner - Tripped And Fell
$65,158	Strain	Volunteer	Working On Project - Sharp Pain In Shoulder
$54,394	Strain	Board President	Unlocking Gate - Injured Arm
$40,092	Contusion	Board Member	Riding With Maintenance Person - Fell From Golf Cart
$28,180	Various Injuries	Volunteer	Lifting Air Conditioning Unit To Cart - Strained Extremities
$25,721	Puncture	Volunteer	Trimming Palm Tree - Cutting Came Down On Leg

MANUFACTURED HOUSING: TREASURE HIDDEN IN PLAIN SIGHT

Homeowners policies for manufactured housing can be found—if you know where to look for them

By Heather Mawn

Even before Hurricane Idalia slammed into the Florida coast in 2023, becoming the eighth major storm to hit the state in six years, major carriers were reducing homeowners coverage or pulling out of the state altogether. Homeowners are now left with limited options and forced to accept skyrocketing premiums and heavy restrictions or self-insure and hope for the best.

Owners of manufactured homes in Florida face an even more dire situation. A manufactured home rate can cost up to twice that of a standard policy, depending on location and perceived vulnerability to damage from factors like wind, fires, or theft.

Availability presents another challenge as many carriers refuse to write policies for manufactured housing at all. Although the Florida Office of Insurance Regulation reports that eight new property and casualty insurers have been approved to enter the market in 2024, it's not likely that their presence will abate the rising cost or availability of coverage for manufactured homes.

Challenging circumstances, indeed, but as is often the case, when a challenge presents itself, opportunity awaits.

The good news: Manufactured housing is here to stay

Manufactured homes have long served as a staple of Florida's housing landscape, offering affordable, comfortable options for retirees migrating to warmer climates and the 55-plus crowd looking to downsize. However, the nationwide demand for affordable housing has attracted new demographics, specifically millennials and young families. The *MHInsider* June 2023 "State of the Industry" report finds that manufactured homes now account for 11% of annual new home starts in the United States.

Increased demand lies in the fact that modern manufactured homes put many aspiring buyers back in a homeownership race that they thought they'd lost. While "mobile homes"—the low-cost, pre-1976 rendering of manufactured homes—often conjure up images of dusty trailer parks and shoddy homes, times have changed.

Today's manufactured homes still cost a fraction of their site-built counterparts, but they offer customizable floor plans, gourmet kitchens, and exterior finishings that make them nearly indistinguishable from traditional homes. Manufactured homes also feature quick construction, include high energy efficiency, and use

Increased demand lies in the fact that modern manufactured homes put many aspiring buyers back in a homeownership race that they thought they'd lost.

durable materials able to withstand winds up to 110 mph.

Manufactured housing communities (MHCs) have evolved in parallel, offering improved safety features and amenities such as swimming pools, playgrounds, sidewalks, and common green spaces.

The bad news: Premiums present obstacles

Of course, there's a catch. The law does not require manufactured homes to have coverage, but mortgage lenders and many MHCs do. While mortgage-free homeowners can choose to drop coverage, they're back at square one if they live in an MHC with regulations.

Many first-time homebuyers rely on a mortgage and have no choice but to buy insurance or forgo their homeownership dreams. As a result, both current owners and aspiring buyers may find themselves priced out of the market.

Look ahead: Opportunity on the horizon

Florida remains a land of opportunity. The U.S. Census Bureau reported Florida as the second-fastest growing state in the nation in 2023, with more than 365,000 new residents. Florida also lays claim to one of the highest numbers of mobile homes in the nation. Approximately 850,000 manufactured homes exist in the state, with nearly 50,000 of them arriving as new shipments since 2017.

That's 850,000 potential policies! Yet, agents frequently turn away manufactured home clients because it is too difficult or time-intensive to find coverage.

What do these things mean for a motivated agent? Tremendous opportunity. The agent who can find both the right brokerage and the right target audience stands poised to provide relief to thousands of frustrated manufactured homeowners and potential buyers.

Seize the moment: Creative thinking goes a long way

Agents who are ready to tap into Florida's manufactured home market must first do their research and find a brokerage that understands coastal markets. An experienced coastal brokerage is more likely to have access to a carrier that can accommodate a range of needs and budgets, including wind-only policies or rate reductions for older homes.

Next, agents willing to look in new places for clientele are likely to find a huge reward. They can:

1. Explore new demographics, including millennials, young families, and other non-traditional manufactured home buyers.
2. Make cold calls or visit MHCs directly.
3. Talk with MHC HOA leaders or other regulatory bodies who can identify residents struggling to find or afford coverage.
4. Connect with lenders who provide manufactured home financing.
5. Ask for referrals from new and existing customers and professional networks.

Hurricanes and severe weather are a fact in Florida, one that residents are willing to accept. What they shouldn't have to accept is that their homes won't have coverage simply because they were built in a factory. Manufactured homes are just that—homes—and they hold immeasurable personal value. No matter the age or condition of the home, it deserves protection.

We're constantly looking for ways to improve business for our agents and protect the homeowners who rely on the coverage we access. We've seen the difficulties in the coastal manufactured housing market for more than a decade, and we know that coverage solutions *are* possible. Knowing what questions to ask to get the right policy in place and delivering quotes instantly through a portal lets us help retail agents bind policies within hours and deliver solutions long before the next storm hits.

There *is* coverage out there when one knows where to look. With access to the right carrier and a little creativity, manufactured housing is an untapped market with untold potential. ■

The author

Heather Mawn is the personal lines division manager at Aspera Insurance Services, a wholesale brokerage specializing in hard-to-place personal insurance. She has led the personal team at Aspera since 2018 and has six years of prior underwriting experience. For more information on working with Aspera, visit asperains.com or email marketing@asperains.com

PREPARING FOR FASTER RECOVERY

The importance of having a property restoration company on speed dial in Florida

By Chris Wilson

Living in Florida presents unique challenges when it comes to property ownership and insurance, due to the state's susceptibility to extreme weather events, such as hurricanes, floods, and tropical storms. For insurance agents operating in Florida, having a reliable property restoration company on speed dial is not just beneficial—it's essential.

Here are six of the most important reasons why that's true:

1. **Rapid response to weather-related damage.** Florida's weather can be unpredictable and often destructive. Hurricanes, in particular, can cause significant damage to homes and businesses, ranging from roof leaks to structural issues and flooding.

   Insurance agents need quick access to property restoration experts who can respond promptly to assess and mitigate damages after a storm. A restoration company on speed dial ensures a rapid response, helping to minimize further property damage and expedite the claims process.
2. **Expertise in handling insurance claims.** Property restoration companies that have experience in dealing with insurance claims can be invaluable partners to insurance agents. These companies understand the intricacies of insurance policies and can provide detailed documentation of damages, which is crucial for claim processing.

   By having a trusted restoration partner readily available, insurance agents can streamline the claims process for their clients, leading to faster resolutions and improved customer satisfaction.
3. **Mitigating secondary damage.** Prompt restoration following property damage is essential to prevent secondary issues like mold growth, which can exacerbate property damage and pose health risks.

   A property restoration company can quickly assess the situation, implement drying and mitigation strategies, and commence repairs, reducing the likelihood of additional damage and associated costs.
4. **Ensuring safety and compliance.** In the aftermath of severe weather events, properties may have compromised structural integrity or safety hazards. Restoration professionals are trained to assess safety risks and adhere to regulatory standards.

   By engaging a reputable restoration company, insurance agents can ensure that properties are restored in compliance with safety regulations, protecting both the property and its occupants.
5. **Building trust and reputation.** Referring clients to reliable property restoration companies builds trust and enhances an insurance agent's reputation. Clients appreciate agents who can provide comprehensive support during challenging times, such as property damage.

   By collaborating with reputable restoration services, insurance agents demonstrate their commitment to client welfare and strengthen their professional standing within the community.
6. **Handling various types of property damage.** Property restoration companies specialize in addressing a wide range of damages beyond storm-related issues. From fire and smoke damage to water and mold remediation, these professionals are equipped to handle diverse restoration needs.

   Insurance agents benefit from having a restoration partner who can tackle any type of property damage efficiently and effectively.

In the Sunshine State, where weather-related property damage is a prevalent concern, insurance agents must be proactive in preparing for emergencies. Collaborating with a property restoration company not only facilitates faster recovery for clients but also enhances an agent's ability to deliver exceptional service.

By maintaining a network of trusted restoration professionals, insurance agents can navigate the complexities of property insurance more effectively and ultimately better serve their clients' needs. Therefore, having a property restoration company on speed dial is not just a convenience—it's a strategic investment in ensuring optimal outcomes for property owners and insurers alike. ■

The author

Chris Wilson is a representative at Rapid Recovery Team, which is a 24/7 emergency-service restoration company specializing in flood damage, mold remediation, water issues, and fire restoration. Visit rapidrecoveryteam.com for more information.

CLEARINGHOUSE PROGRAM EXPLAINED

What Florida agents should expect from the new EZLynx/Citizens property rating solution

By Michael Streit

Many businesses are challenged with understanding and fully optimizing their technology systems. Independent agents are no different as their knowledge and expertise lie within insurance, not technology necessarily. They are their customers' trusted advisor, after all.

It's safe to say that Florida agents have a unique challenge: incorporating the specific technology needed to quote Florida's not-for-profit property insurer, Citizens Property Insurance Corporation. Citizens was created by the Florida Legislature in August 2002 to provide property insurance to eligible Florida property owners who are unable to find insurance coverage in the private market.

Clearinghouse program established

In 2013, additional legislation was passed that required Citizens to establish a clearinghouse program. The program's stated purpose is to divert ineligible applicants and existing policyholders from Citizens and into the voluntary market. To support this, Citizens will provide technology solutions designed to help find private-market insurance company offers before applying for or renewing a property insurance policy with Citizens.

So, if Citizens is required to support the clearinghouse program to make sure there aren't private insurers that can take the risk, it had better work well! Enter EZLynx. In mid-2023, Citizens and Applied Systems entered into an agreement to deliver a world-class clearinghouse program and optimize eligibility determination against the private market at the point of sale and renewal.

This agreement will use EZLynx Rating as the exclusive system provided to appointed agents for accurate assessment of risk coverage from Citizens and other carriers as part of the standard rate, quote, and bind process for personal home insurance. The rating solution allows agents to gather quotes from the majority of their appointed homeowners carriers in Florida which will ensure accurate eligibility determination for Citizen's coverage.

So, what does this mean for Florida agents? And what should they expect? Here are a few answers to the questions that we expect you, as a Florida agent, are probably asking.

What is EZLynx Rating Engine?

EZLynx Rating Engine will provide Citizens-appointed agents with an easy-to-use comparative rater that delivers real-time homeowners quotes from as many carriers as possible. The solution will also deliver:

- **Real-time quoting.** The modern quoting experience streamlines data entry and innovates how agents rate, bind, and issue policies from carrier websites.

- **Carrier defaults and pre-fill.** Common carrier fields are pre-filled automatically, speeding up the quoting process.
- **Automatic address validation.** Google Maps is used to find addresses and automatically validate addresses with the United States Postal Service.
- **Accuracy check-ins.** Missing or invalid information identified throughout the quoting process will prompt a notification to the agency of any discrepancies as sections of the application are completed.
- **Graph view for quote results.** Quote results can be quickly compared using color cues to differentiate auto and home results (for agents with access to auto quotes) and to combine quotes from the same carrier.

Do I have to pay for this new rating solution and will it work with quoting other personal lines risks?

Through the initiative, all Citizens agents will receive no-cost access to EZLynx Rating Engine to quote home and dwelling fire policies to ensure coverage for the end insured.

Depending on the rating solution you currently use, there will be multiple options to onboard and integrate into day-to-day workflows.

If you already leverage EZLynx Rating Engine, Citizens will be added as an available insurer. For those not already using EZLynx Rating Engine, this rating application will be in addition to any other rating or agency management system technology you already use. However, you can easily upgrade your EZLynx access to include comparative rating for personal auto or leverage full agency management system capabilities.

When will I have access to EZLynx Rating Engine and what does EZLynx have to say to agents?

Rollout will occur in waves beginning in mid-2024. Agents will receive log-ins and details directly from EZLynx, along with direct communication from Citizens. In advance of the formal go-live, agents will receive access to a self-service resource hub to learn more about the rating solution and how to use it.

We know that adopting new technology can be difficult. We are prepared to assist you in taking on this potentially new rating solution without any business disruption.

We are thrilled to partner with Citizens and help independent agents like you provide the best coverage possible for insureds. And throughout the onboarding process and usage of the solution, we are committed to offering the resources you need to easily onboard, providing premier support for anytime you want a hand, and delivering technology that will act as your most productive employee. ■

The author

Michael Streit joined EZLynx parent company Applied Systems in 2023 and is president of EZLynx, responsible for leading the EZLynx business. Previously, he worked at private equity firm Centerbridge Partners, where he was responsible for partnering with management teams to drive growth and operational improvements within Centerbridge portfolio companies.

Before that, he held a similar role at Bain Capital. Michael has a BA from Notre Dame and an MBA from Harvard Business School. Learn more about EZLynx at ezlynx.com.

IMPROVING AGENCY VALUE

Four factors that can help agency owners in a hard market

By Scott Freiday

The insurance market in Florida presents a unique set of challenges, including climate risk, higher litigation costs and carrier insolvencies. Combining these factors with the current hard market, making it difficult for homeowners to find affordable coverage, just makes the situation in Florida complicated. Independent insurance agencies in the state are well positioned to help their clients navigate buying insurance in a hard market, as customer retention is a key factor in the agency's value and profitability.

There are some signs that the state's insurance market is changing due in part to tort reform legislation, which should reduce some of the industry's legal challenges. More carriers are entering the Florida market, bringing increased capacity, including reinsurance capacity. General investment in Florida is also on the rise, which should improve the overall economic environment.

Client retention and growth

Agents understand that retaining good clients is as important as acquiring new ones; however, the two go hand-in-hand. Here are three key steps agents can take to grow revenue and retain clients.

1. Invest in the agency. Start by investing in the agency's staff, technology and operations to serve clients better and retain them. Consider whether staff may benefit from additional training. When purchasing new technology, ask for input from the staff. The best technology won't be cost-effective if the staff can't—or won't—use it.

Review all processes to see whether they need to be updated, revised or eliminated.

2. Maintain current appointments. Underwriting restrictions limit the amount of coverage carriers can provide and reduces overall capacity in the Florida market. Agents need to focus on their appointments with highly rated markets.

Better markets have more opportunity in Florida to write coverages, but the cost may be so prohibitive that some agents can't place as much business as they'd like to. This opens up prospects for other agencies in terms of what they can do with the options they have available.

3. Concentrate on clients. All agents are reviewing their existing client base. Will they concentrate on renewals or growth?

Agents need to leverage carrier relationships to get their clients the best rates. The agents who have survived prior hard markets, higher interest rates and inflation are poised to capture opportunity by focusing on new accounts as well as renewals.

With the hard market rate increases comes the reality that customers will shop around, leading to increased pressure on independent agents to place their current clients with Citizens Property Insurance Company in order to retain business. Although Citizen's commission rates might be lower than other carriers, the agents are preserving their client relationships, planning to move the accounts to traditional markets eventually.

Many agencies are leveraging technology for customer service and data analytics, to improve retention, and to free their staff's time to service clients. That's making them more efficient, improving margins and growing value, which ultimately yields more cash flow.

That, in turn, allows them to take actions to support their growth, like hiring more employees or making acquisitions.

Investing in the future

Agency owners should continually invest in talent for now and the future. Identifying the next generation of ownership or key managers within an agency is important to maintain efficiency and continuity in their operations. It also opens up the agency's perpetuation pool or ownership pool.

When trying to predict who will thrive in an agency, there are some traits that successful agents have in common, for example:

- A good network of contacts
- Experience within a certain industry that the agency services
- Subject matter expertise in a particular industry that they want to branch into
- A fit with the agency culture

Remote and hybrid working make it difficult to ensure a cultural fit because employees don't absorb that culture without personal interaction. Many agencies have a hybrid remote model in place, which helps, with most continuing to operate from their offices—often the headquarters where the business was started. Some agencies also are expanding their physical retail presence to bring multiple storefronts to their clients.

Reliable cash flow

One reason an independent insurance agency is an attractive business is its recurring cash flow. Agency owners are paying close attention to consolidation within Florida's independent insurance agency community, and some have chosen to become consolidators themselves, buying other agencies where they want to expand, or competitors in their business territory.

> *Once agency owners have completed two or three successful acquisitions, they … can quickly identify a potential target agency, understand the value of its book of business and the agency's proposed value, then try to acquire it.*

Once agency owners have completed two or three successful acquisitions, they develop their own mergers-and-acquisition business model. They can quickly identify a potential target agency, understand the value of its book of business and the agency's proposed value, then try to acquire it.

Geography matters

Geography is important, especially in a large state like Florida. When an owner begins the process of selling or buying an agency, it is recommended that they always consult lenders, attorneys, accountants and other advisers who have experience with the insurance industry and in the area in which the agencies are located.

There could be a regional or a local geographical consideration that the owner may not be taking into account. Florida has its own unique challenges, so it is important to talk to lenders that have an understanding of the market.

Many positive trends are occurring in Florida, and no one can predict what will reverse or ease the hard market. Independent agents should remember that all agents nationwide are dealing with the same challenges brought about by the hard market. Agencies that stay focused on operating as efficiently as possible, while educating their clients and providing them with a high level of customer service, are most likely to successfully endure the hard market. ■

The author

Scott Freiday is senior vice president and division director of InsurBanc, a division of Connecticut Community Bank, N.A. He oversees the bank's commercial lending and cash management operations and has nearly a quarter century of experience in domestic and international banking and financial services. InsurBanc specializes in financial products and services nationally for the independent insurance distribution community. Started in 2001 as a vision of the Big "I," InsurBanc finances acquisitions and perpetuations and helps agencies become more efficient by providing cash-management solutions. For information, visit insurbanc.com.

NAVIGATING RISKS WITH PARAMETRIC INSURANCE

Product offers several key benefits that set it apart from traditional insurance models

By Dawn Gordon

Insurance that readily pays out when a named storm hits a certain wind speed for one minute, offering swift financial support without the hassle of lengthy claims processes or disputes, sounds too good to be true. But parametric insurance is doing just that, providing a unique form of coverage that takes a proactive approach to claims resolution.

Unlike traditional insurance policies that require extensive investigations and evaluations after an event, parametric insurance pre-defines triggers typically tied to measurable and independently verifiable data. These triggers can include wind speed, earthquake magnitude, or flood levels.

When these predefined parameters are met, the policyholder is entitled to a predetermined payout, significantly simplifying the claims process.

Scott Carpinteri, well-known expert and pioneer in the parametric insurance space and president of K2 Parametric Insurance Services, explains, "Parametric insurance is almost like pre-adjudicating a claim. It's saying if a particular event happens in a specific location, the client is entitled to a specific amount of money, depending on the severity of the event."

While parametric products have been around since the 1990s, coverage for individual insureds has gained momentum within the past five to ten years. Capacity has continued to grow as more data becomes available and carriers join the market. A report by Allied Market Research says the size of the parametric insurance market is expected to more than double within 10 years.

Key benefits of parametric insurance

Parametric insurance offers several key benefits that set it apart from traditional insurance models. One of the most significant advantages is the speed of the application process and payouts. Traditional insurance often requires the insured to submit substantial site information and involves lengthy claims processes and assessments when a loss occurs.

With a parametric insurance policy, there is no need for the insured to submit any claims history or compile details about the property for evaluation by underwriters, such as the year structures were built, building materials, and other factors. This process saves time on both ends of policy procurement and payout.

Additionally, parametric insurance triggers payouts based on predefined parameters, meaning once the trigger condition is met, the payout is disbursed. Payouts are usually made to insureds within one month of an event covered by parametric insurance.

With traditional insurance, hurricane claims can typically take an average of one year to disburse payouts. However, there are many documented instances where claims have taken years to settle.

The increased speed of response that parametric insurance offers can make all the difference, especially in scenarios where rapid access to funds makes a critical impact on recovery and continuity efforts.

Another key benefit of parametric insurance is the broad use of funds. Traditional insurance policies restrict the use of payouts to specific covered losses. In contrast, parametric insurance offers flexibility in how funds can be utilized.

Since payouts are linked to predefined triggers rather than specific losses, policyholders have greater autonomy in allocating the funds to address various aspects of their financial needs following an insured event. This flexibility enables businesses and individuals to tailor their response strategies according to their unique circumstances, enhancing overall resilience and recovery capabilities.

Furthermore, parametric insurance minimizes or eliminates the potential for disputes and contentious claims processes. Because payouts are triggered based on objective, verifiable data rather than subjective assessments of loss, there is less room for interpretation or disagreement regarding the coverage provided.

This approach leads to a more streamlined and effective risk management framework for businesses and individuals alike.

Unlike traditional insurance policies that require extensive investigations and evaluations after an event, parametric insurance pre-defines triggers typically tied to measurable and independently verifiable data.

Challenges and limitations

A common misconception is that parametric insurance is a magic solution providing ideal, comprehensive coverage for certain risks. While parametric insurance offers significant advantages, it is not a perfect solution and comes with its own set of challenges and limitations.

One of the primary challenges of parametric insurance is its complementary nature. Parametric policies are often designed to complement existing coverage rather than providing comprehensive protection on their own.

While there are some unique circumstances where parametric coverage can be strategically bought in lieu of traditional insurance, parametric insurance works best as an addition to existing coverage, as opposed to a complete replacement for traditional insurance.

In an industry where price is often front and center, additional premium can be a hard sell. However, this challenge also presents an opportunity to help educate clients by turning the discussion from price to value.

Another limitation in parametric insurance can be observed in scenarios of total loss. In cases where an event surpasses the predefined triggers of parametric coverage resulting in a total loss, insureds will rarely receive full financial compensation for that loss. On the other hand, when the trigger condition is not quite met, the coverage will not provide financial protection.

While parametric insurance offers speed, broad use of funds, and a streamlined claims process, its limitations in total loss scenarios highlight the need for a complementary approach to risk management.

Understanding both the advantages and limitations of parametric insurance is crucial for businesses and individuals to make informed decisions and develop comprehensive risk mitigation strategies that address a range of potential risks and losses.

Parametric insurance and Florida's unique risks

Parametric insurance holds particular relevance in Florida, due to the state's threat of hurricanes and also its litigious environment. Examples of how parametric insurance has been used in Florida for coverages that traditional insurance excludes:

- Off-premises power failure–overhead transmission lines
- Trees, shrubs, landscaping
- Business income expenses
- Awnings that are typically valued under the deductible
- Unique buildings and structures
- Debris removal
- Increased operational costs related to employee disruption, power loss and generator operating costs, and additional security costs

Parametric insurance can be used for those risks that are unable to find traditional insurance. As previously discussed, parametric insurance can play a crucial role in mitigating these risks by providing faster payouts based on predefined triggers and less deliberation around claims.

This aspect enables prompt recovery efforts and helps businesses and individuals cope with the immediate financial impact of catastrophic events.

The future of parametric coverage

Currently, the primary parametric markets in the United States are named storm, wind and quake, with both flood and hail in developing stages. The future of parametric insurance is promising, with significant potential for growth and expansion to cover a broader range of risks.

As technological advancements continue to improve data accuracy and reliability, parametric insurance products are expected to become more sophisticated and versatile.

"The key component is reliable, independent data," Carpinteri says. "When we know exactly what happened and where it happened, we have the foundation for a potential parametric market."

Parametric insurance offers a compelling set of benefits including speed, flexibility, and simplicity, making it a valuable complement to traditional insurance coverage. Its ability to provide faster payouts, broad fund usage, and minimize disputes presents a significant advantage, especially in high-risk regions like Florida.

While it is not a one-size-fits-all solution and comes with its own set of challenges and limitations, its strategic integration can effectively enhance risk management strategies. Looking forward, the future prospects for parametric insurance are promising, contingent upon reliable data availability and increased collaboration within the insurance industry.

It is crucial for businesses and individuals to make informed decisions, considering both traditional and parametric options to ensure comprehensive coverage tailored to their specific needs and risks. ■

The author

Dawn Gordon, CPCU, principal, senior vice president, and property broker at Brown & Riding, has been in the insurance industry for over 30 years and has spent her entire career working in Florida. She started on the carrier side, where she held a variety of positions before moving to the wholesale side. She specializes in E&S property coverage and is a member of the Florida Surplus Lines Association.

CONTAIN CATASTROPHE

When disaster strikes: The time to prepare for hurricane season is now

By Robert Windschauer

With a background in geology and having lived in Florida for 60 years, I've been in the disaster response business for some time. The only thing predictable about these events is their unpredictability. This is why being prepared for the unexpected is rule number one.

We know when hurricanes are forming and coming, but as we've seen time and time again, one shift can significantly determine the location and severity of impact. Hurricane season is approaching, and now is the time to ensure your ducks are in order. One way to do that is to ensure your personal lines insurance clients are ready for when and if they need a swift response to salvage their home.

Through rigorous study and experience with over 300 weather events in the past 30 years, I have delved deep into the dynamics of hurricane origin, impacts, and response. The result is a clear understanding that preparation before landfall and speed of response after impact will determine the severity and recovery of a catastrophic weather event.

This foundation allowed me to identify gaps in disaster preparedness and response strategies. Motivated to make a tangible difference, I founded Daybreak, a catastrophic disaster response company.

Prepare. Protect. Prevail.

Our mission is to assist high-value property owners through an exclusive disaster recovery concierge service when catastrophic events occur, providing immediate, next-day, customized response, and focused customer service throughout the entire event. Our network of vetted, professional contractors is dispatched to members' property virtually the day after the storm passes to help mitigate damage, lower repair costs, and speed restoration.

Daybreak operates as a concierge model designed to provide your clients highly personalized and dedicated attention; when they need us to move quickly, we have the resources to do so. As an agent, you can add us as another risk management service for your high-value homeowners clients and earn an annual commission on the membership fees.

Proactive and swift action can mean the difference between tens and hundreds of thousands of dollars in repair costs, extended restoration timeframes, additional repairs, or even, in some cases, experiencing a total loss.

Here's an example from someone I know personally. We will call her Barbara. During Hurricane Irma, she did the smart and responsible thing and evacuated, as she lived on the water and followed evacuation orders. During the storm, a wind event came through the canal where her home sits, and she lost a part of her roof. When the storm passed and the rain ended, her house was left without power for about a week.

During that week, the water intrusion through the damaged roof and humid air did its work, and mold festered out of control. Additional delays in the recovery and restoration process only exacerbated the damage. By the time she was able to return to her home, nearly the entire structure had to be gutted and completely renovated.

Run from the water, hide from the wind, know your escape route, and remind your personal lines insurance clients to have all their important documents and phone numbers handy to weather the storm effectively.

Had Barbara been a member, the cost to mitigate and repair her home would have been about $50,000 and she would have been back in her home in two weeks. Instead, her repair cost reached nearly $400,000, due to delays in the recovery response to the home and the fact that repairs took the better part of a year to complete.

People want the ability to control their own outcomes. Storms such as Hurricane Ian, which generated over 700,000 claims, overwhelmed every facet of the response system. Mitigation and restoration vendor backlogs extended to months; there were simply too many damaged homes and not enough vendors to do the work.

The result is a long, frustrating line of homeowners waiting to see when their number is called, and then it's often too late. When this occurs, people lose control over what happens to their property.

Preparation is vital. We're already familiar with our members' property. Our onboarding process is designed to make homeowners feel prepared and ready and includes a comprehensive Matterport virtual walkthrough, which creates a digital twin of each member's property while capturing detailed information about interior and exterior footprints. Should an event strike, we're ahead of the curve.

When people don't know what to do or where to turn during a disaster, it's reactionary. When homeowners are empowered, they have the assurance that the recovery process had started the day before the storm hit. Our goal is to give your personal lines insurance clients control of their outcomes.

A concierge approach ensures that a vetted, expert mitigation/restoration vendor is assigned to your client's property and that the entire recovery process will be handled; the anxiety and stress of the entire weather event on the homeowner is thereby removed.

Our service for homeowners has nothing to do with insurance; instead, it is about the homeowner making the decision to recover their home. We understand the large deductibles commonly associated with high-value homes. Most damages encountered are well below deductible limits, so the homeowner will foot that bill anyway. However, by performing rapid response mitigation practices, the damages will not fester over weeks or months until a vendor finally shows up. The concierge handles it all. The homeowner can relax knowing someone is on the job to the very end.

Proactive member communication and the Daybreak process are essential. The cadence of service—from five days out from an event to three days out, to one day out, and then during and after an event—lets your personal lines insurance clients know someone is there for them. It's our promise.

And now is the time to encourage these clients to plan and know whom to call that will be there to help them, not weeks later, but the very next day the storm passes. Run from the water, hide from the wind, know your escape route, and remind your personal lines insurance clients to have all their important documents and phone numbers handy to weather the storm effectively.

It can happen to anyone. And you want your clients to be protected and to get somewhere safe. They need time to find that safe place and have peace of mind knowing that a team of experts is ready to ensure that their home is ready for them once the storm subsides.

Hurricanes don't only affect people living along the coast. They can cause damage hundreds of miles from the shore. Regardless of who your personal lines insurance client selects to protect their home in the event of a hurricane, there are measures everyone can take to prepare for severe weather events.

Preparation tips

Share these storm preparation tips from the Centers for Disease Control and Prevention with your clients:

1. Make a plan. Hurricane season starts on May 15 in the North Pacific and June 1 in the Atlantic and the Caribbean. It ends on November 30. They should have emergency phone numbers available. They should also know their evacuation route and the nearest shelter. If they have pets, double-check that the shelter accepts them. No furry friends left behind!

2. Build an emergency supply kit. Nonperishable foods, batteries, and water essentials are a must. Ensure that prescriptions are full and important documents are accessible in case they need to leave home.

3. Have the vehicle ready. Fill the tank while they can. Lines at gas pumps can get long, and gas stations can run empty, too!

Ultimately, make sure your clients know someone who will be there to help them start the next day with rebuilding in mind. We hope to be those people.

The author

Robert Windschauer, founder and CEO of Daybreak Response, LLC, is a geologist motivated to make a tangible difference in catastrophic property disaster recovery. Learn more at www.daybreakresponse.com.

INCENTIVIZING COMMUNITIES

FEMA's Community Rating System can be quite beneficial for premium discounts on flood insurance

By Patty Templeton-Jones

A little more than 30 years ago, the Federal Emergency Management Agency (FEMA) established the Community Rating System (CRS) as part of the National Flood Insurance Program (NFIP) to incentivize communities that surpassed minimum requirements for engaging in flood risk reduction and education efforts.

The primary incentive of this voluntary participation program: the potential of insurance premium discounts for residents ranging from 5% to 45%, depending on rating. The ratings are based on a variety of factors, including current and past flood mitigation efforts, enforcing regulations that require development limitations, regulations for soil and erosion control, water quality and emergency planning and preparedness.

Hundreds of thousands of residents in two of the country's most flood-prone areas—Florida's Miami Dade County and Pinellas County—received a 35% reduction and 40% reduction, respectively, in their NFIP premiums on April 1 this year.

Additionally, these counties have attributed decades-worth of critical investments to improve infrastructure, flood plain management and expand public information with the goal of keeping residents safe from increasing flooding threats and lowering insurance costs in the process.

In fact, the CRS Class 2 designation for Pinellas County is the highest rating a Florida community has ever achieved and is among the top 1% of CRS communities nationwide. The 40% discount is projected to provide more than $10 million per year in annual savings on flood insurance premiums for unincorporated areas of Pinellas, county officials said at the time of the announcement.

While theirs may reflect a more dramatic ascent up the CRS rankings, Miami Dade and Pinellas are not alone. A number of locales—including Lexington, Kentucky; Cobb County, Georgia; Alexandria, Viriginia—are among the 1,500 participating communities that also passed along premium discounts on April 1 to their residents, thanks in large part to forward-thinking leadership aimed at pushing flood mitigation and resiliency closer to the forefront of public agendas, budgets and operations.

"We want to see more communities join the community rating system, because it is the opportunity to get credit for doing more than the minimum," said FEMA's associate resilience administrator Victoria Salinas in a recent announcement. "Insurance is a first line of defense in the recovery process."

It's voluntary for communities to participate in the CRS, which was launched in 1990. If a community is in full compliance with the minimum floodplain management standards of the NFIP, they can apply. There's no application fee and all CRS publications are free.

Generally, a community's mayor, city manager or other top official appoints a CRS coordinator to serve as the liaison

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between the community and FEMA. That coordinator should know the operations of all departments that deal with floodplain management and public information. They should also be able to speak on behalf of the community.

To begin the application process, the community submits a letter of interest to its FEMA Regional Office and documents that it is implementing floodplain management activities that warrant at least 500 CRS credit points. A community accrues points to improve its CRS class rating and receives increasingly higher discounts. Points are awarded for engaging in any of 19 creditable

> *Points are awarded for engaging in any of 19 creditable activities, organized under four categories: Public information, mapping and regulations, flood damage reduction, and warning and response.*

For easy reference, on the CRS website at www.fema.gov/floodplain-management/community-rating-system, such things as a sample letter, the CRS Quick Check (a tool that helps communities assess its possible credit points) and other instructions can be found.

As the onslaught of headlines about climate change, sea rise and tightening insurance markets continues, we cannot lose sight that long-term progress can be, and is being, made to protect ourselves against the physical and financial devastation of flooding.

When it comes to private property ownership, insurance agents and brokers should take a similar stance to bring flood preparation and coverage to the forefront for their clients, whether it's quoting flood insurance with every homeowner, renters or business policy underwritten or renewed, to inform owners about the mitigation measures they can take on their own to lower insurance premiums further. Every step forward on this issue is a step in the right direction.

While we wish we could snap our fingers to provide immediate solutions, as the saying goes, "There is only one way to eat an elephant: a bite at a time." Kudos to those communities that are steadily proving that taking the right course of action to prepare our communities against flood will pay off in the long run. ■

The author

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