



Future of the Florida Homeowners Market: Are We There Yet?

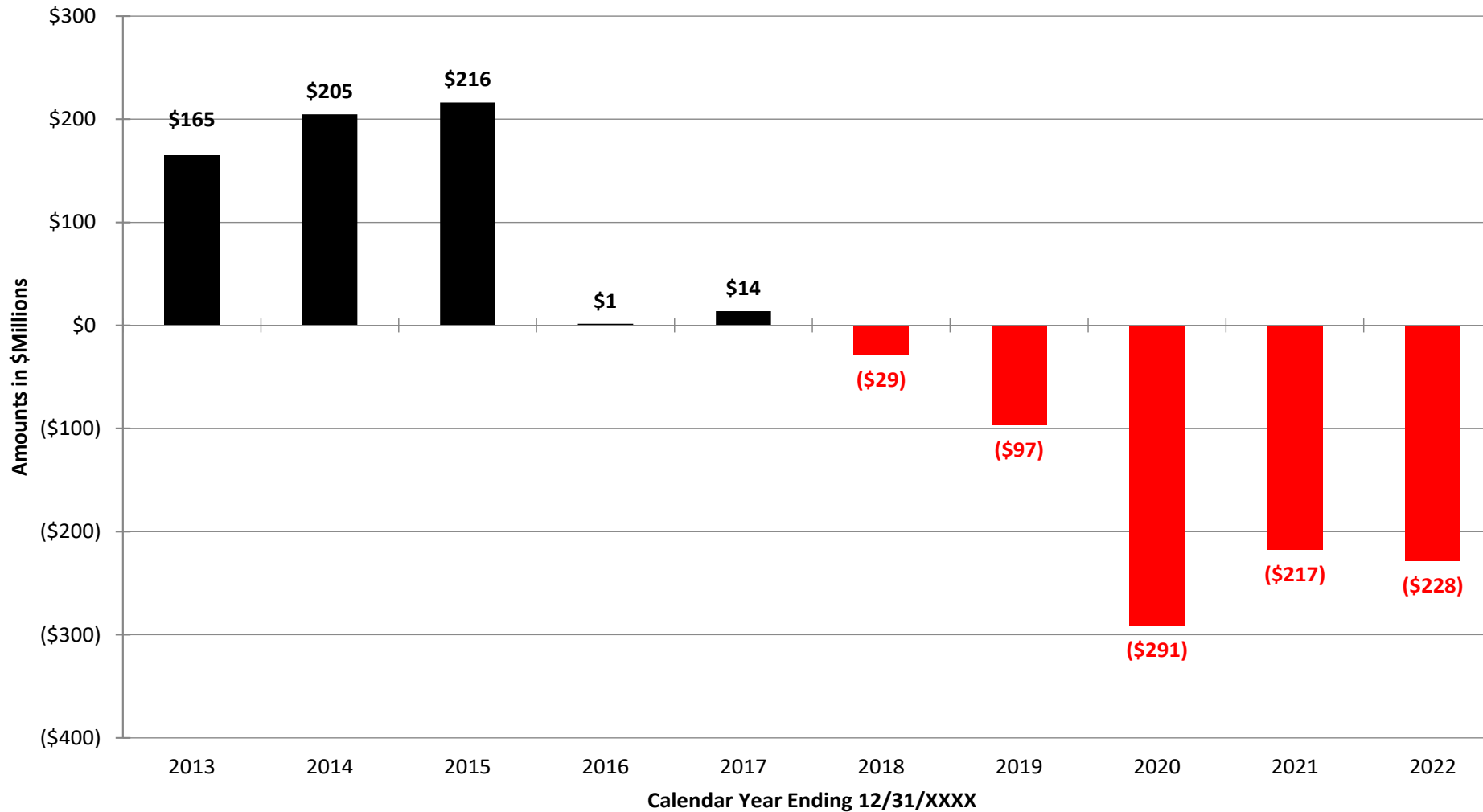
FINREP FL

October 24, 2023

Arthur R. Randolph II, FCAS, MAAA, CPCU, ARM, ARe
Principal & Consulting Actuary

Christopher J. Schubert, FCAS, MAAA
Consulting Actuary

Net Income or (Loss)



Agenda

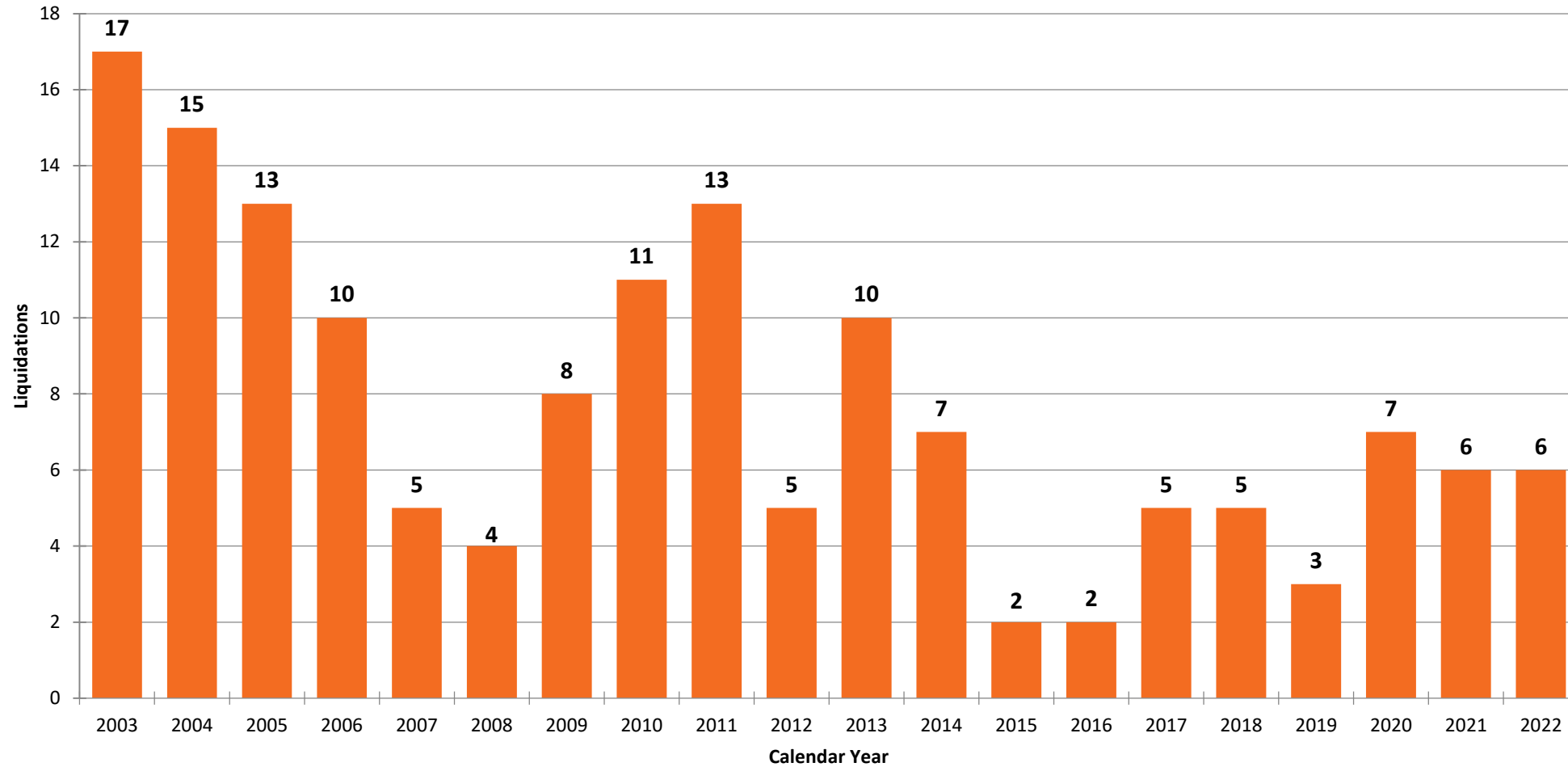
- Insolvencies
- Florida Senate Bill 2-A: Special Session December 2022
- Likelihood of Continued Adverse Development (and More)
- Are We There Yet?
- Appendices
 - Insolvencies
 - Impact on Florida
 - Are We There Yet?

Insolvencies



Property/Casualty Industry Insolvencies

FL-domiciled companies represent 39% of insolvencies in 2016 & subsequent



Source: [FIGA 2022 Annual Report](#)

Market Consolidation / “Shadow” Insolvencies

- Anchor Property & Casualty Insurance Co.
- Capitol Preferred Insurance Company, Inc.
- Family Security Insurance Company
- Omega Insurance Company
- Prepared Insurance Company
- Southern Fidelity P&C Inc.
- Tower Hill Select Insurance Company
- Universal Insurance Company of North America

Cause of Insolvencies

- Most common*
 - Deficient loss reserves / adverse loss development
 - Inadequate rates / competition / contagion
 - Rapid growth – top line (premium) vs. bottom line (profitability)
 - Mismanagement
- Other causes*
 - Catastrophic risk / geographic concentration
 - Affiliate problems
 - Significant change in business operations
 - Reinsurer failure
 - Overstated assets
- Fraud – adjudged or alleged**

*Source: [American Academy of Actuaries, Property/Casualty Insurance Company Insolvencies, September 2010](#)

**Source: Best's Special Report, *2021 US Property/Casualty Impairments Update*, April 2023

(In)solvency Monitoring

- Annual statement / Schedule P
- Statement of actuarial opinion (SAO)
- National Association of Insurance Commissioners (NAIC) Insurance Regulatory Information Systems (IRIS)
 1. Overall ratios – leverage (premium), premium growth, surplus aid
 2. Profitability ratios – operating ratio, investment yield, surplus growth
 3. Liquidity ratios
 4. Reserve ratios – reserve development, reserve deficiency
- Rate filings – indicated vs. proposed vs. approved

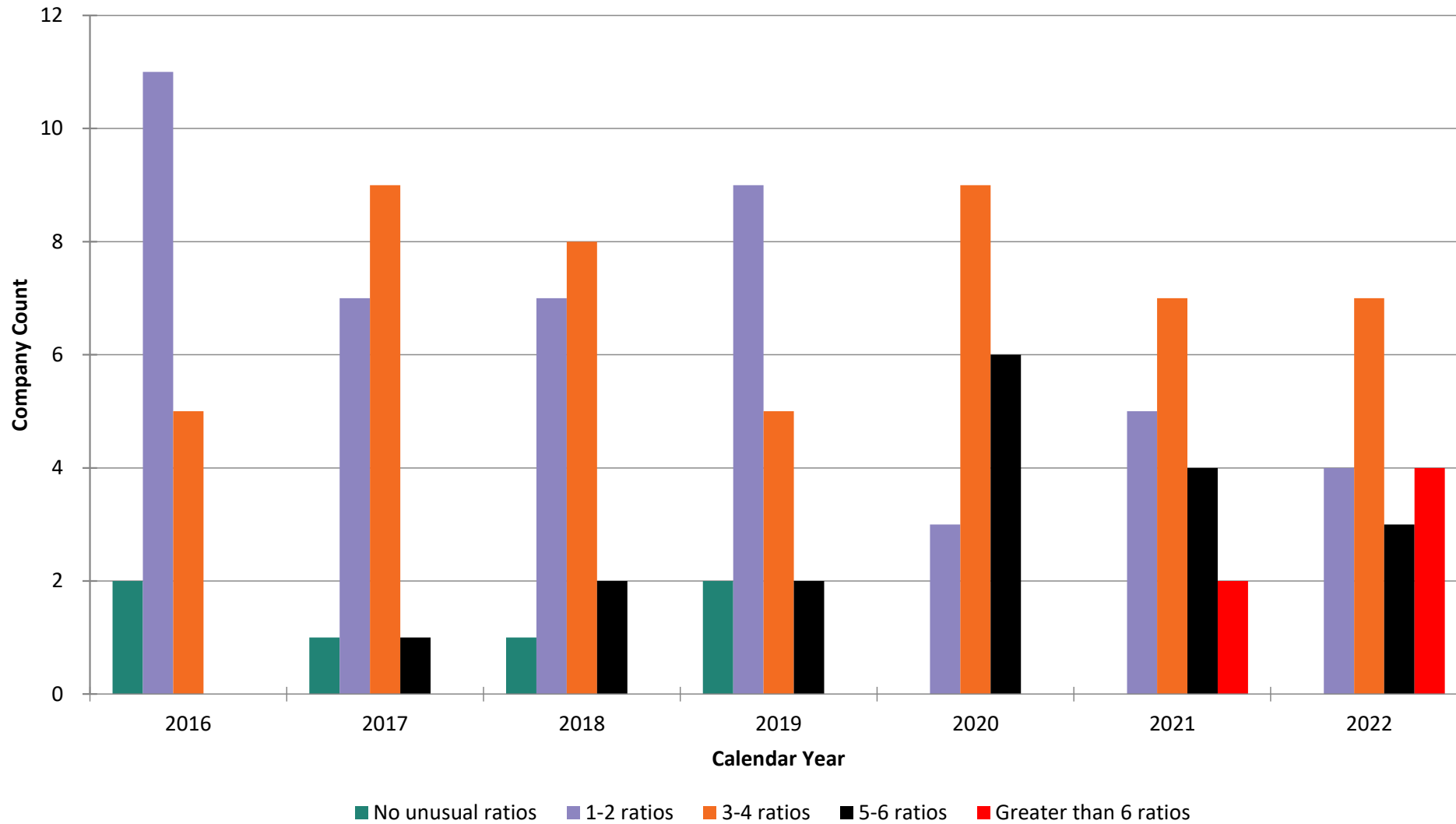
IRIS Ratios

IRIS #	IRIS Ratio Description	Calendar Year						
		2016	2017	2018	2019	2020	2021	2022
1	Gross Premiums Written to Policyholders' Surplus	0	0	0	0	0	1	0
2	Net Premiums Written to Policyholders' Surplus	0	0	0	0	1	0	1
3	Change in Net Premiums Written	2	2	4	5	5	5	6
4	Surplus Aid to Policyholders' Surplus	6	6	7	7	6	8	8
5	Two-Year Overall Operating Ratio	5	10	12	11	13	15	8
6	Investment Yield	14	13	10	6	15	16	12
7	Gross Change in Policyholders' Surplus	1	5	3	2	7	5	6
8	Change in Adjusted Policyholders' Surplus	2	7	5	5	12	8	7
9	Adjusted Liabilities to Liquid Assets	1	1	4	3	7	8	12
10	Gross Agents' Balances (in collection) to Policyholders' Surplus	0	1	0	1	0	1	1
11	One-Year Reserve Development to Policyholders' Surplus	0	0	1	1	1	2	0
12	Two-Year Reserve Development to Policyholders' Surplus	0	1	2	1	1	2	6
13	Estimated Current Reserve Deficiency To Policyholders' Surplus	0	0	1	2	0	2	8
	Total	31	46	49	44	68	73	75
	Average Failed Ratios per Company	1.7	2.6	2.7	2.4	3.8	4.1	4.2

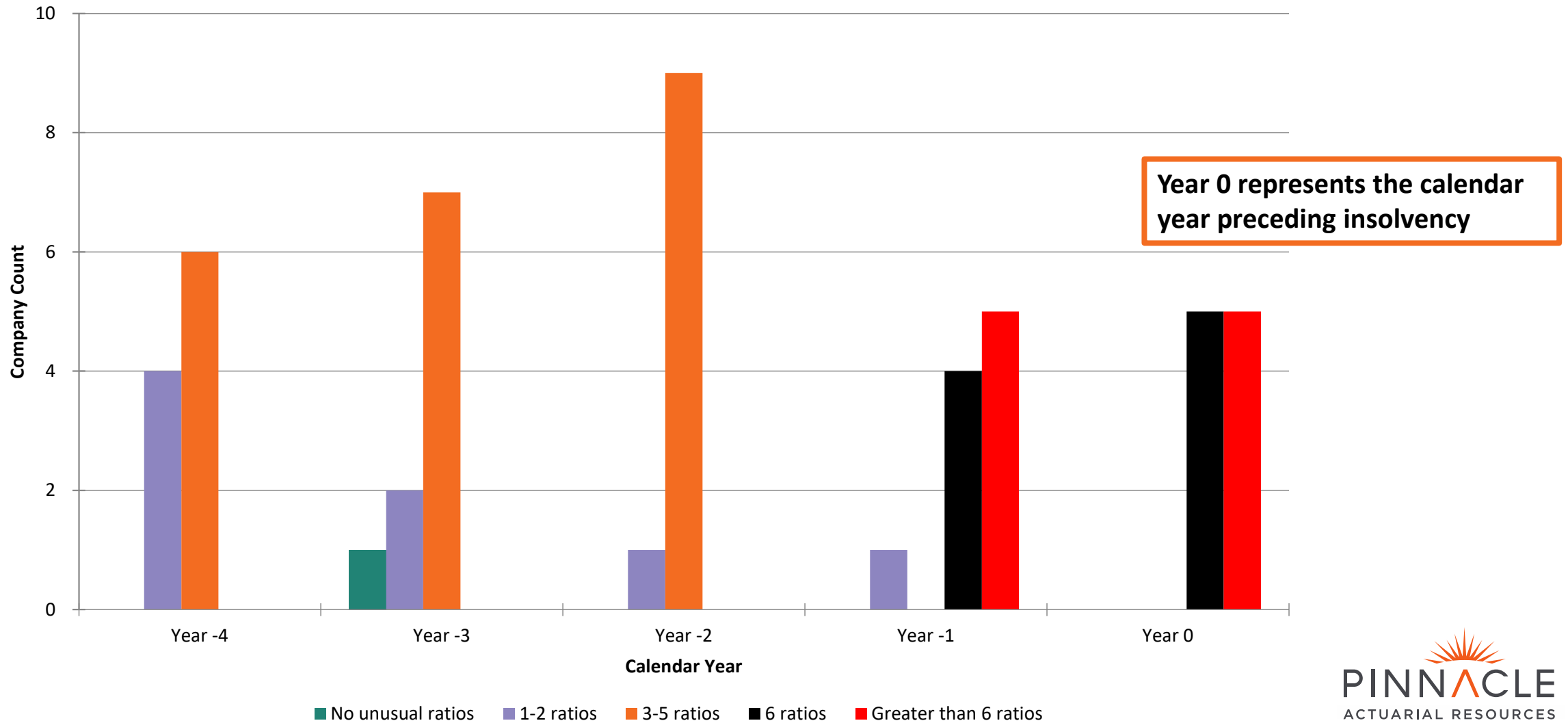
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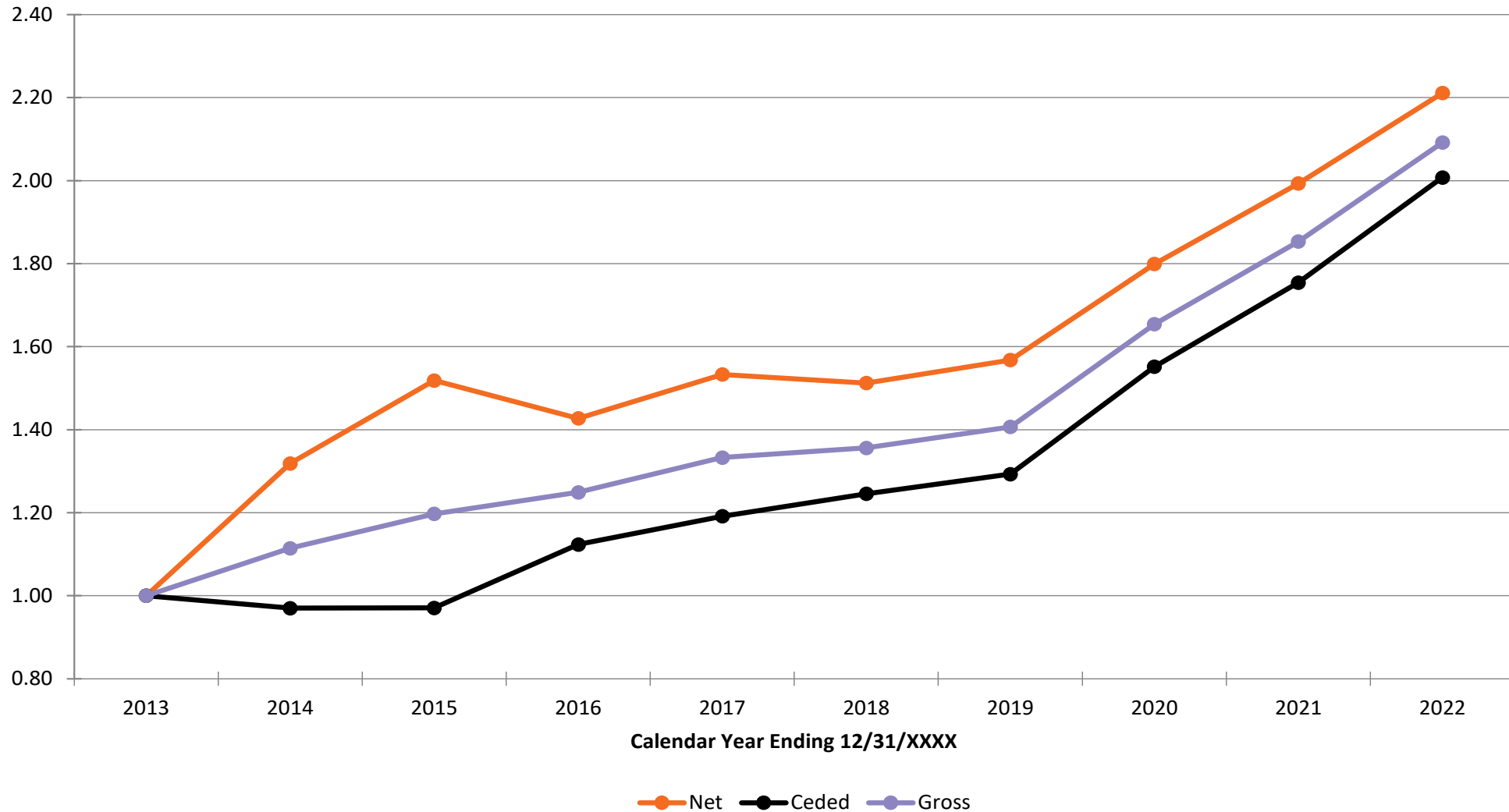
Unusual IRIS Ratios by Company Count



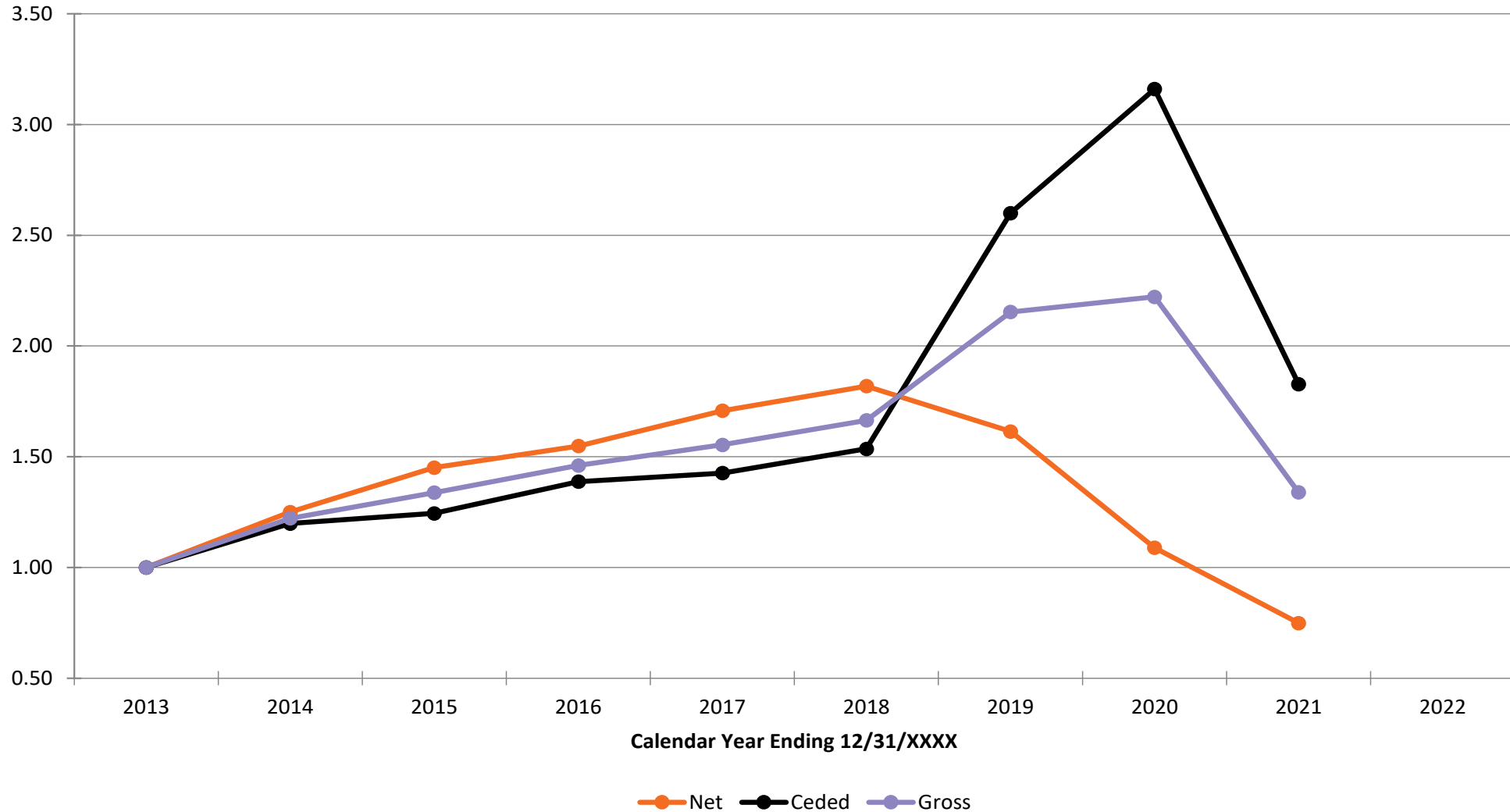
Unusual IRIS Ratios: Insolvent Companies Since 2019



Gross Written Premium by Component: Indexed to 2013



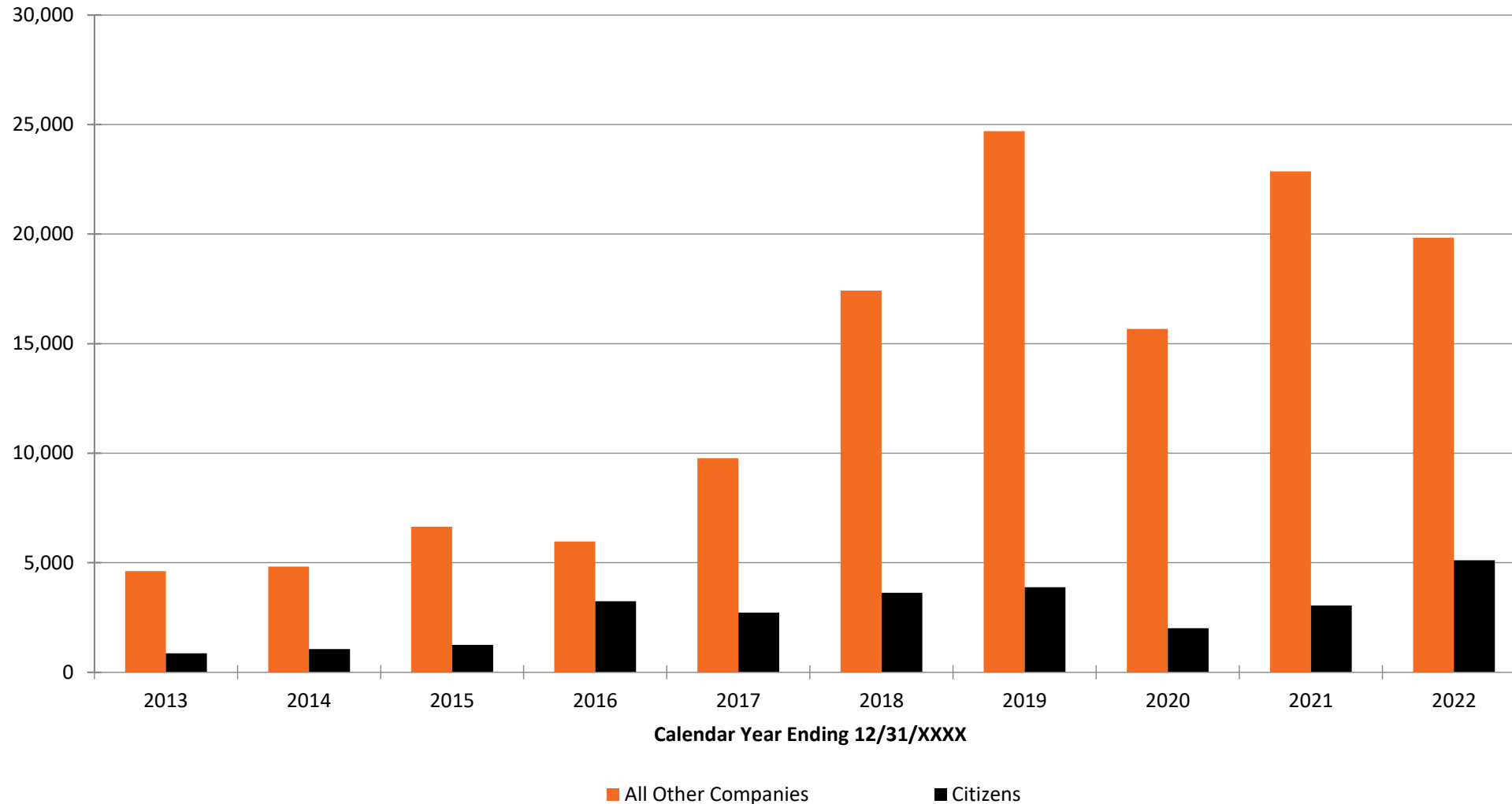
GWP: Indexed to 2013 - Insolvent Companies



Florida Senate Bill 2-A: Special Session December 2022

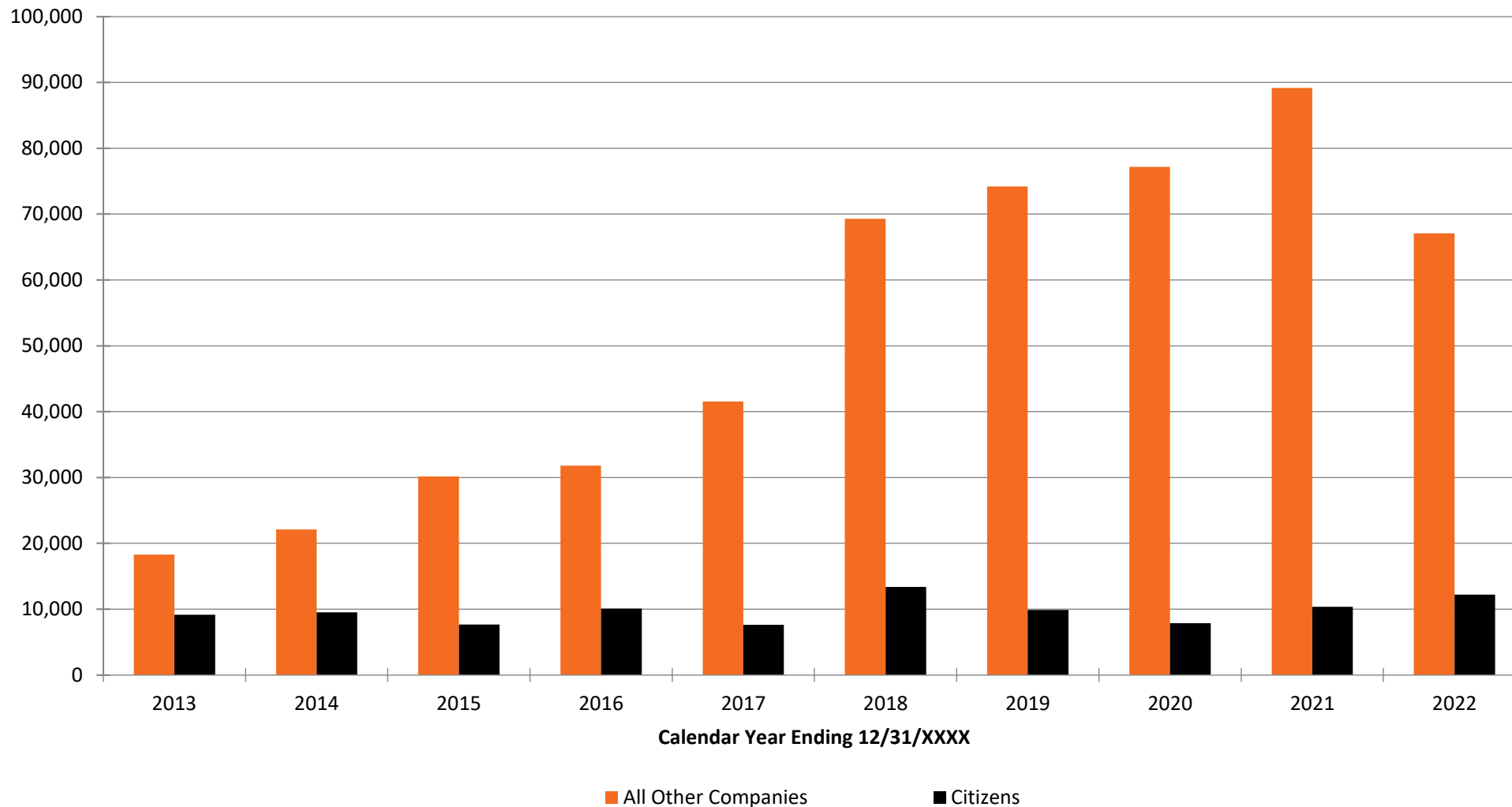


AOB Claim Count Comparison



Source: FL Department of Financial Services, Legal Service of Process database

Litigated Claim Count Comparison



Source: FL Department of Financial Services, Legal Service of Process database

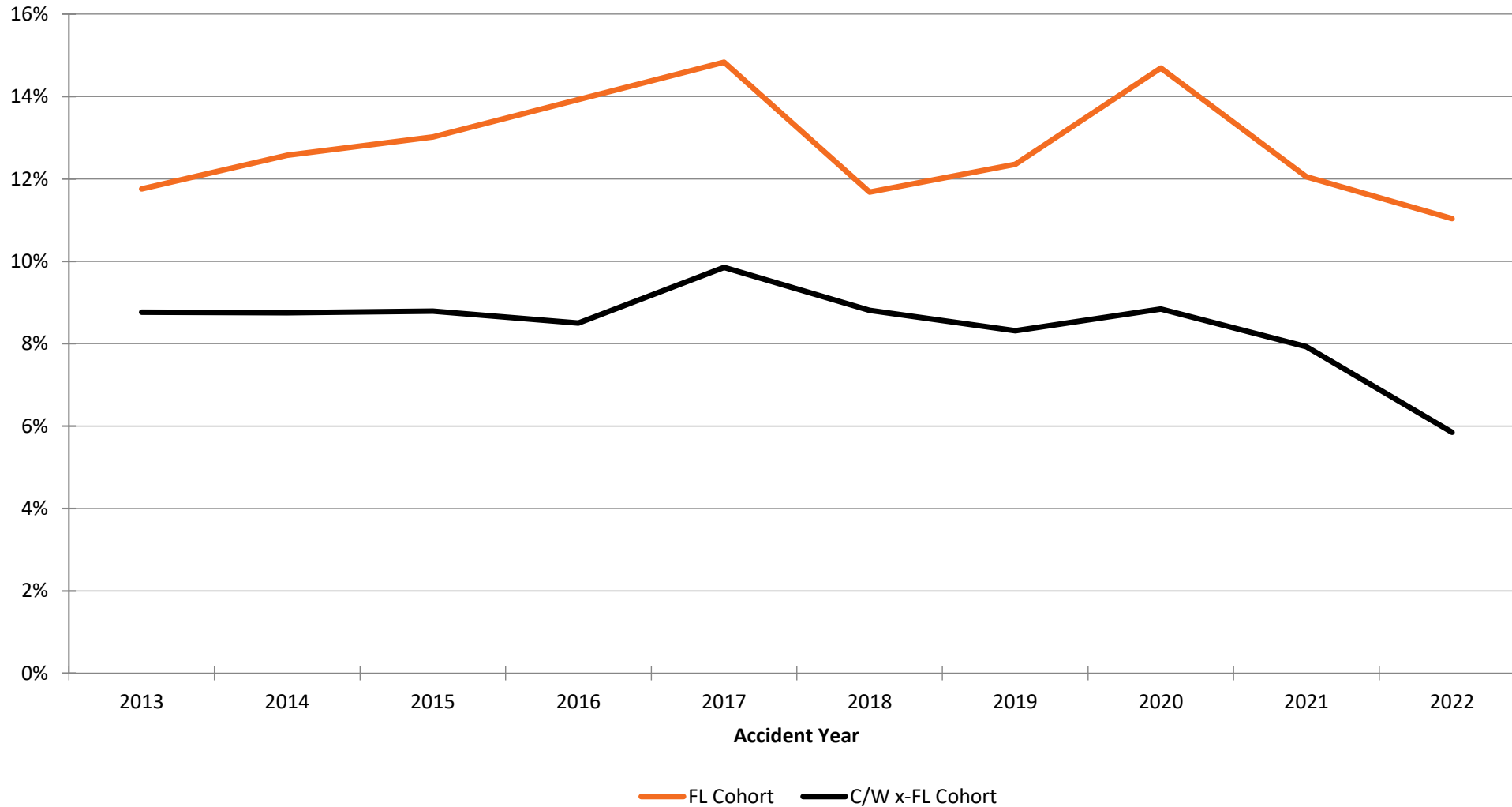
Legal System Abuse

Florida Homeowners Industry Distribution of FL HO Claims to C/W

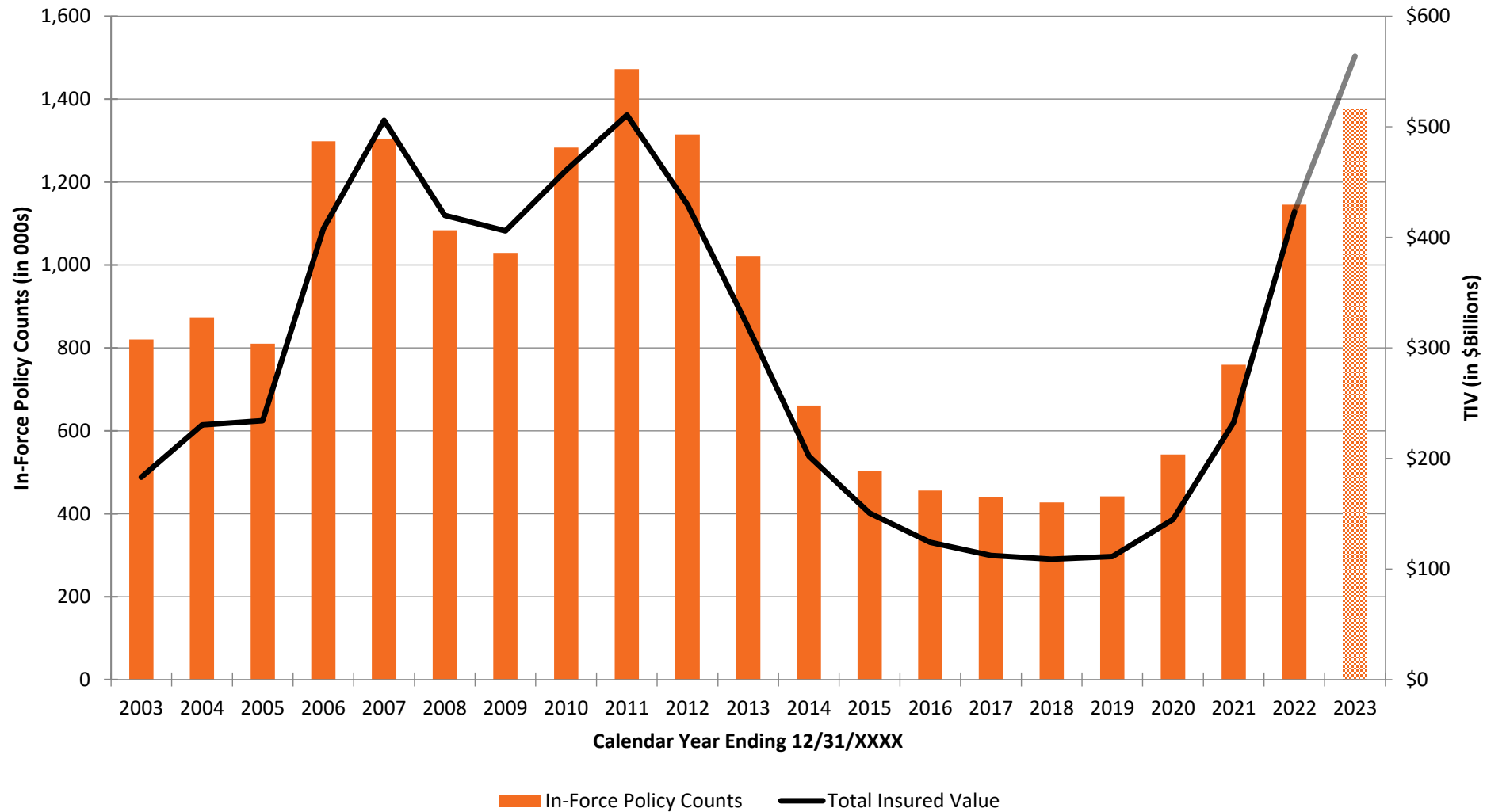
Year	All FL HO Claims	Litigated FL HO Claims
2016	7.8%	64.4%
2017	16.5%	68.1%
2018	11.9%	79.9%
2019	8.2%	76.5%
2020	8.8%	79.2%
2021	6.9%	76.0%

Source: Florida Office of Insurance Regulation, [Property Insurance Stability Report](#), July 1, 2023

Net LAE Ratios (Line)



Citizens' Growth



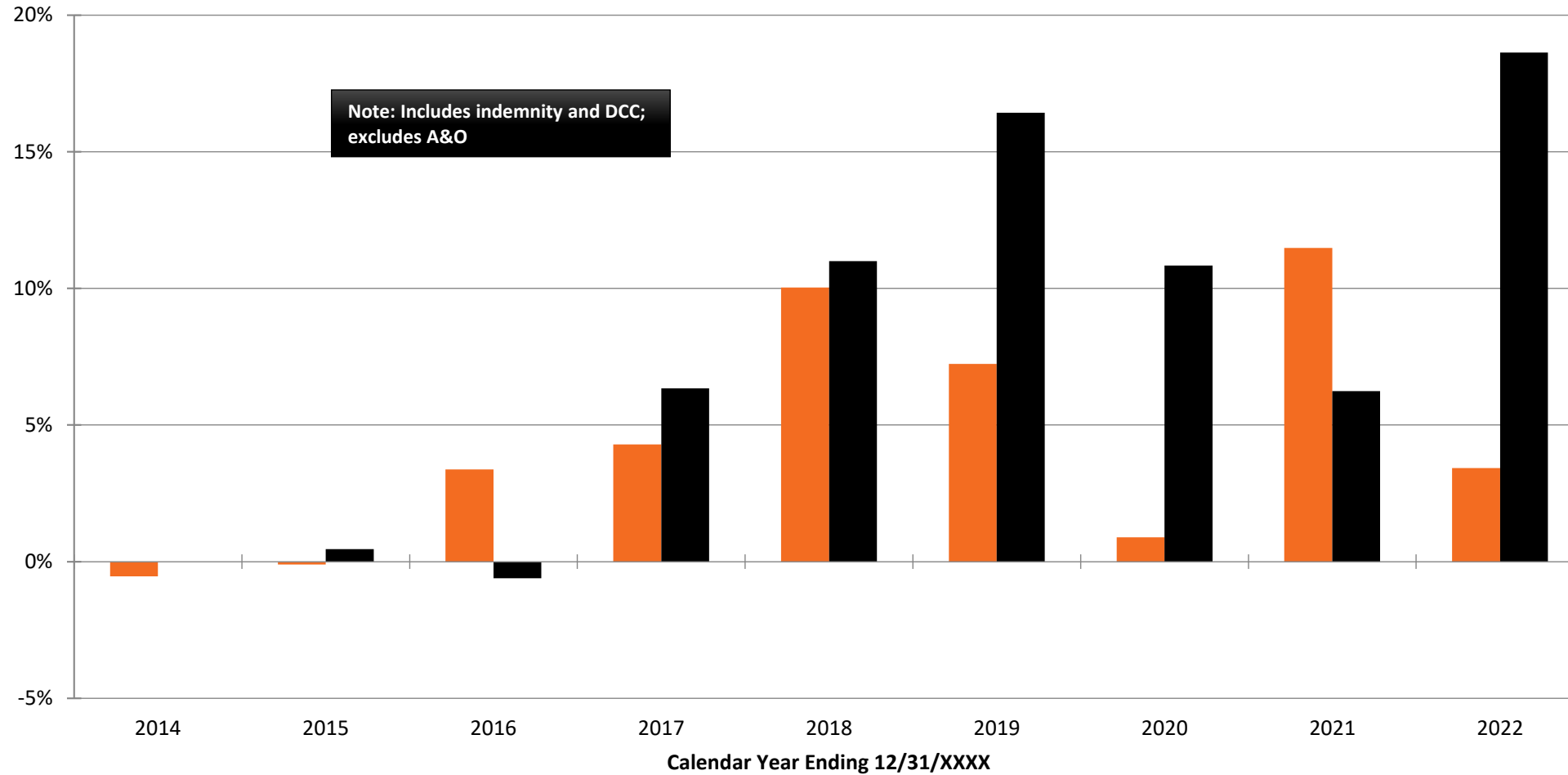
Legislative Focus

- Established Florida Optional Reinsurance Assistance (FORA) Program – market-rate reinsurance for 2023 hurricane season
- Repealed one-way attorney fees – each party responsible for own attorney fees
- Prohibited AOBs for policies issued on or subsequent to 1/1/2023
- Reduced Citizens' competitiveness

Likelihood of Continued Adverse Development (and More)

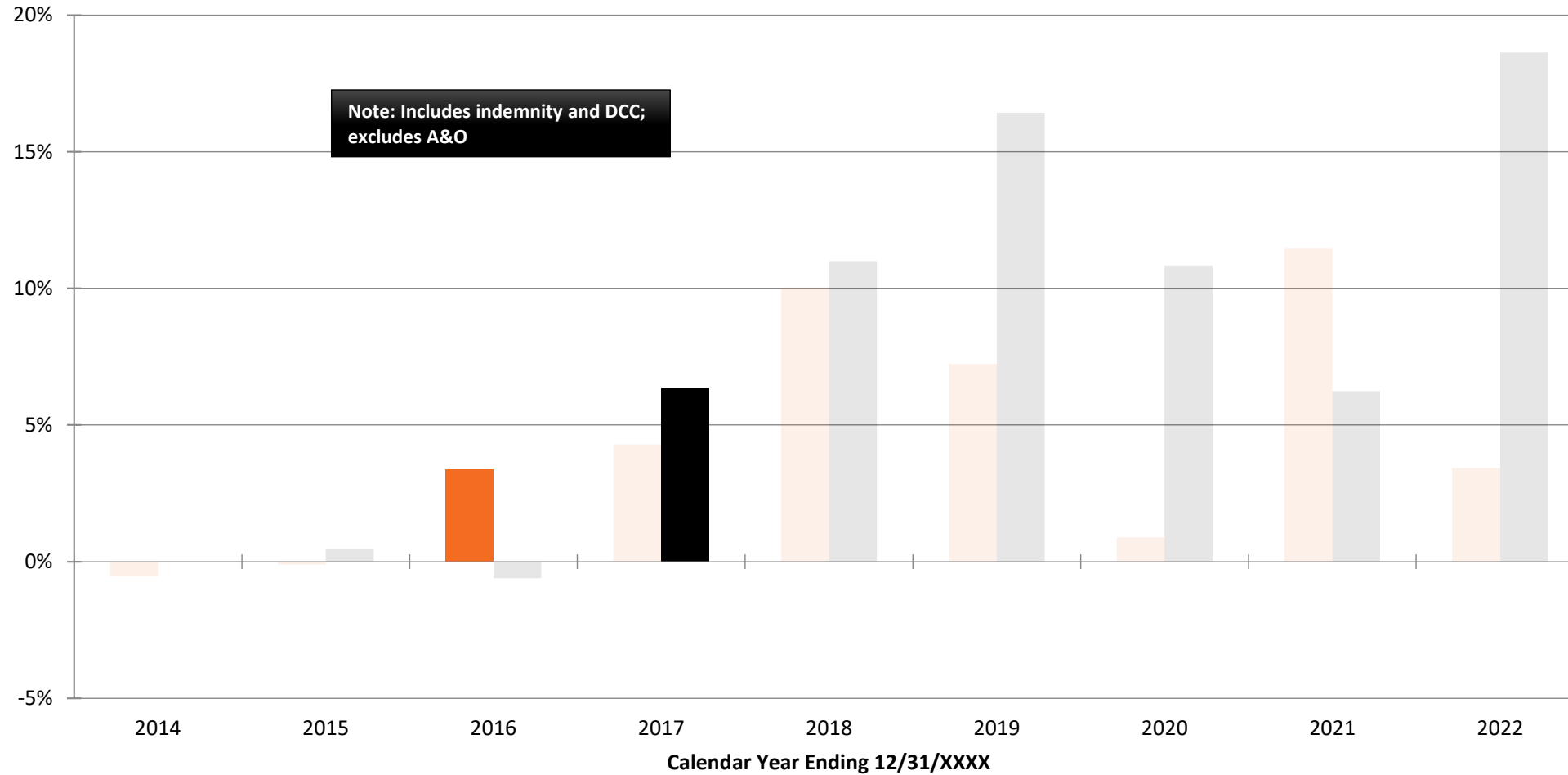


% Change in Net Ultimate Loss & DCC to Prior Surplus



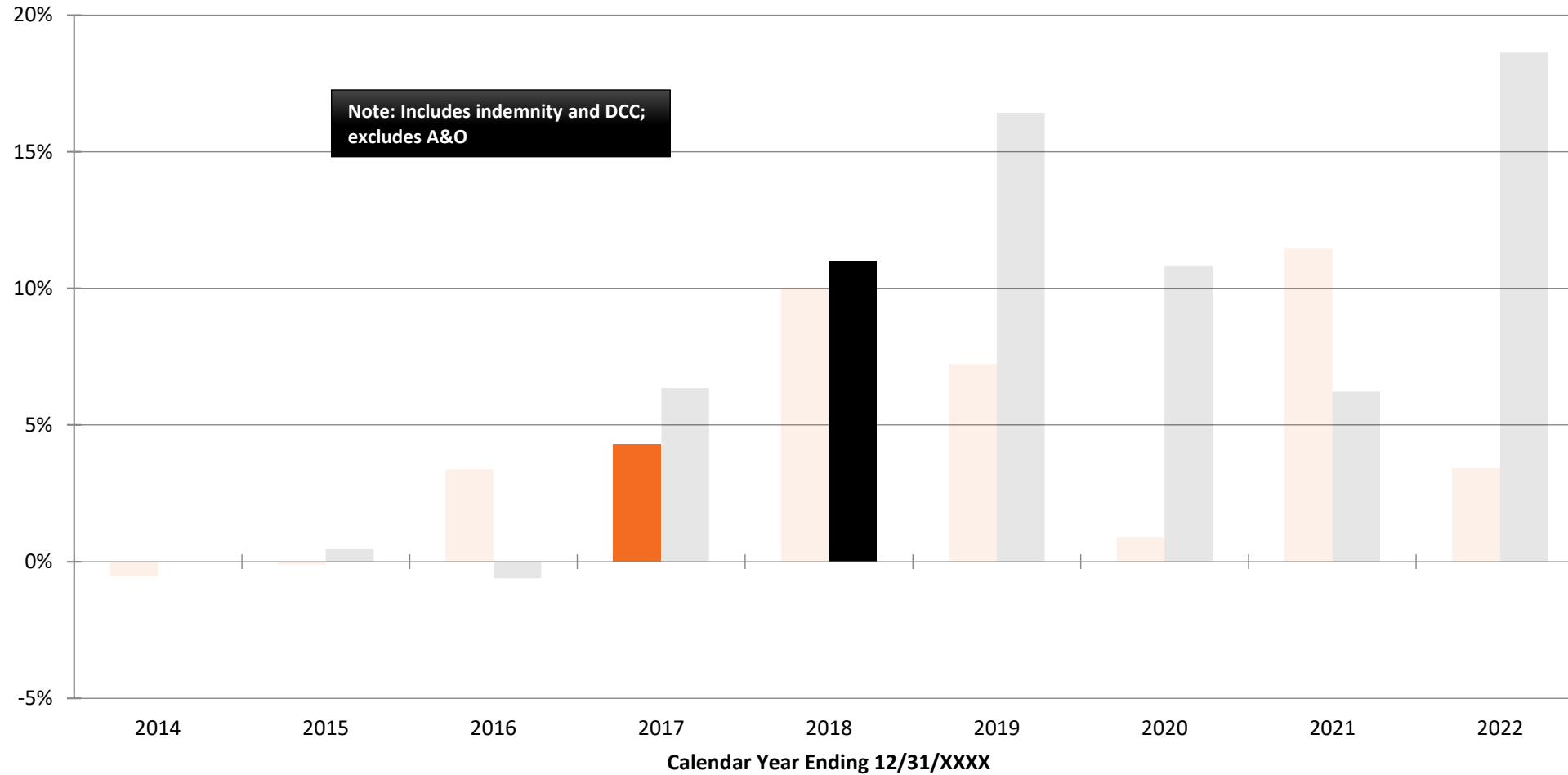
■ One-Year Development Ratio ■ Two-Year Development Ratio

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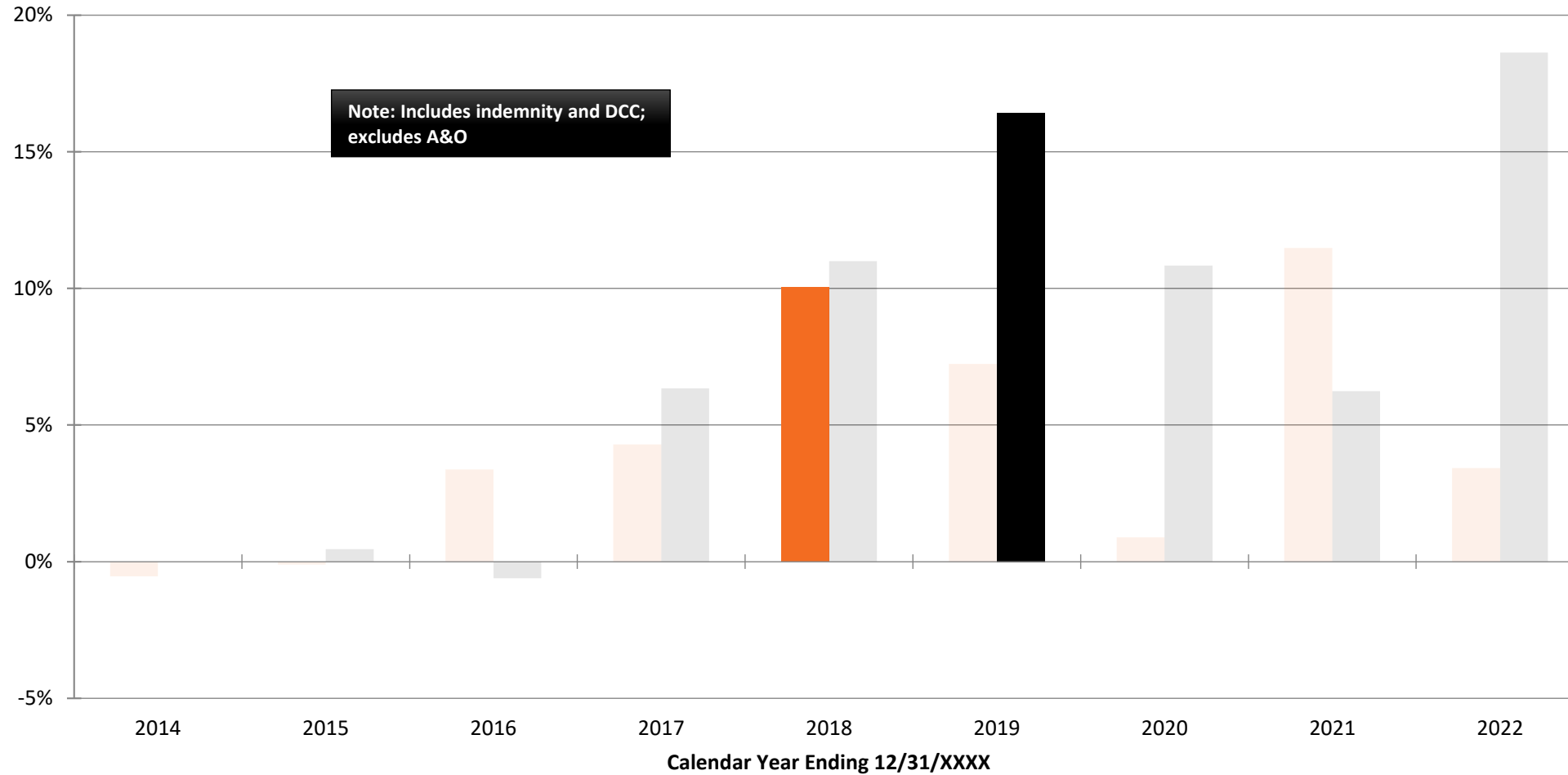
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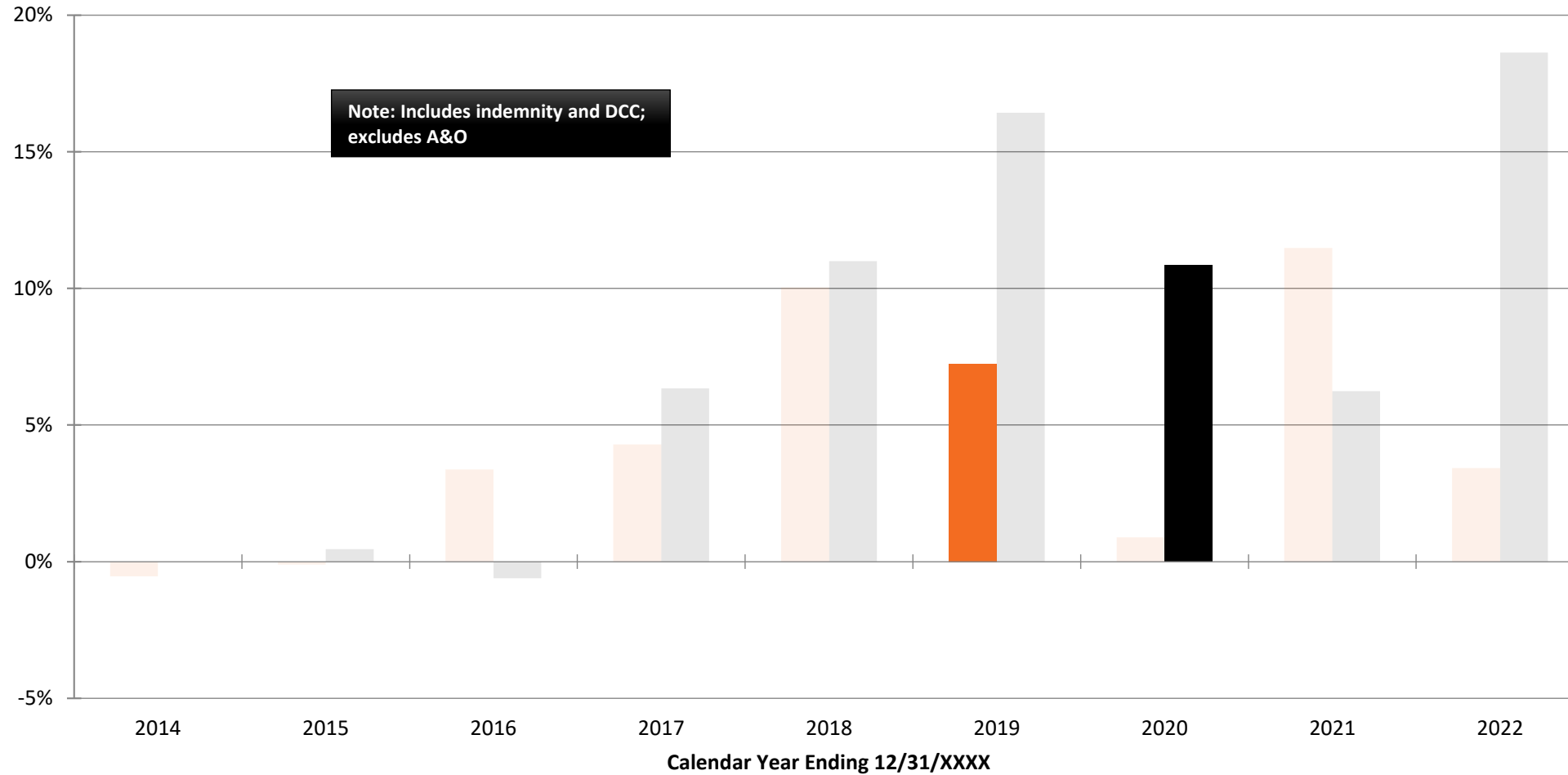
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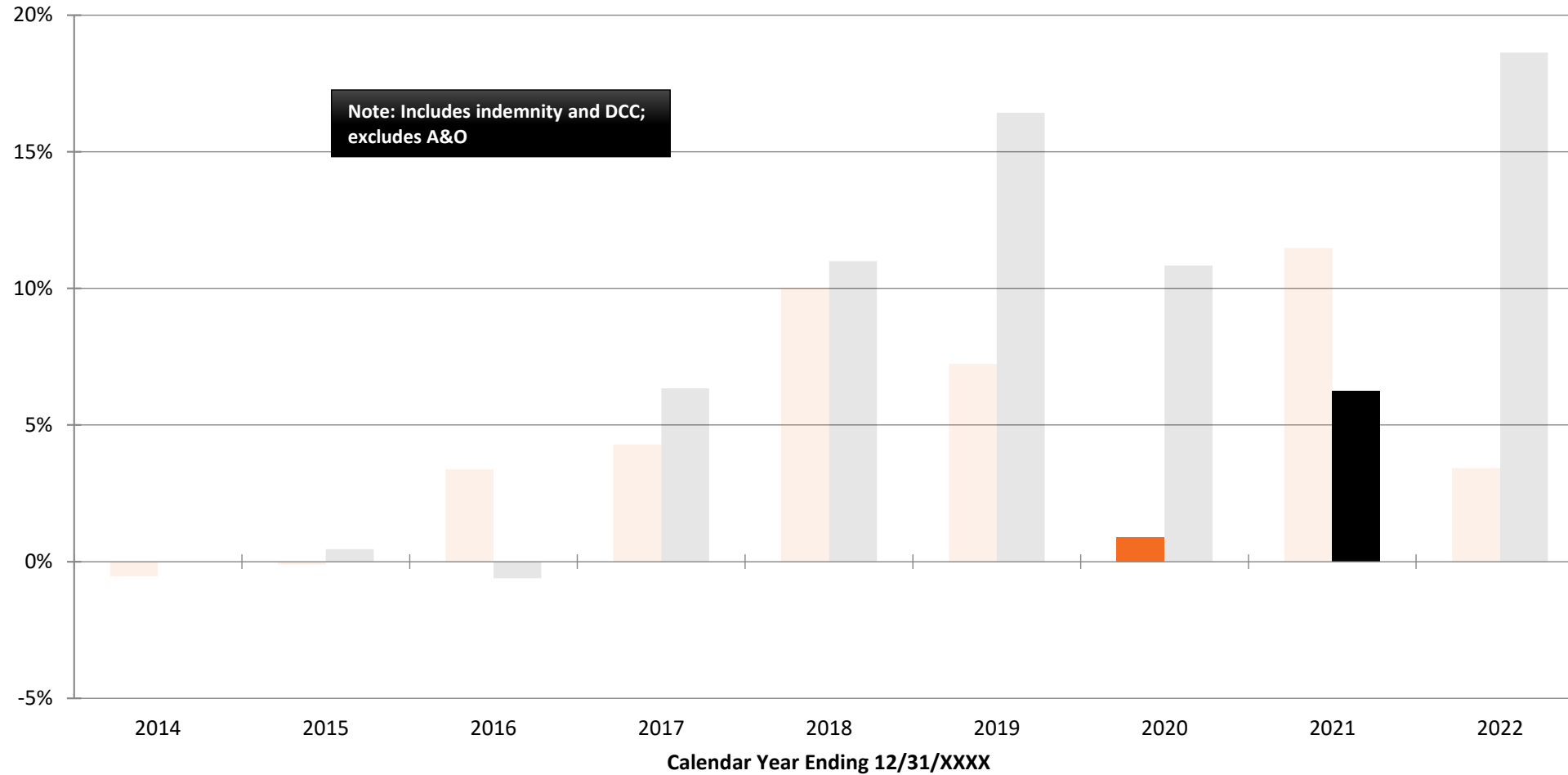
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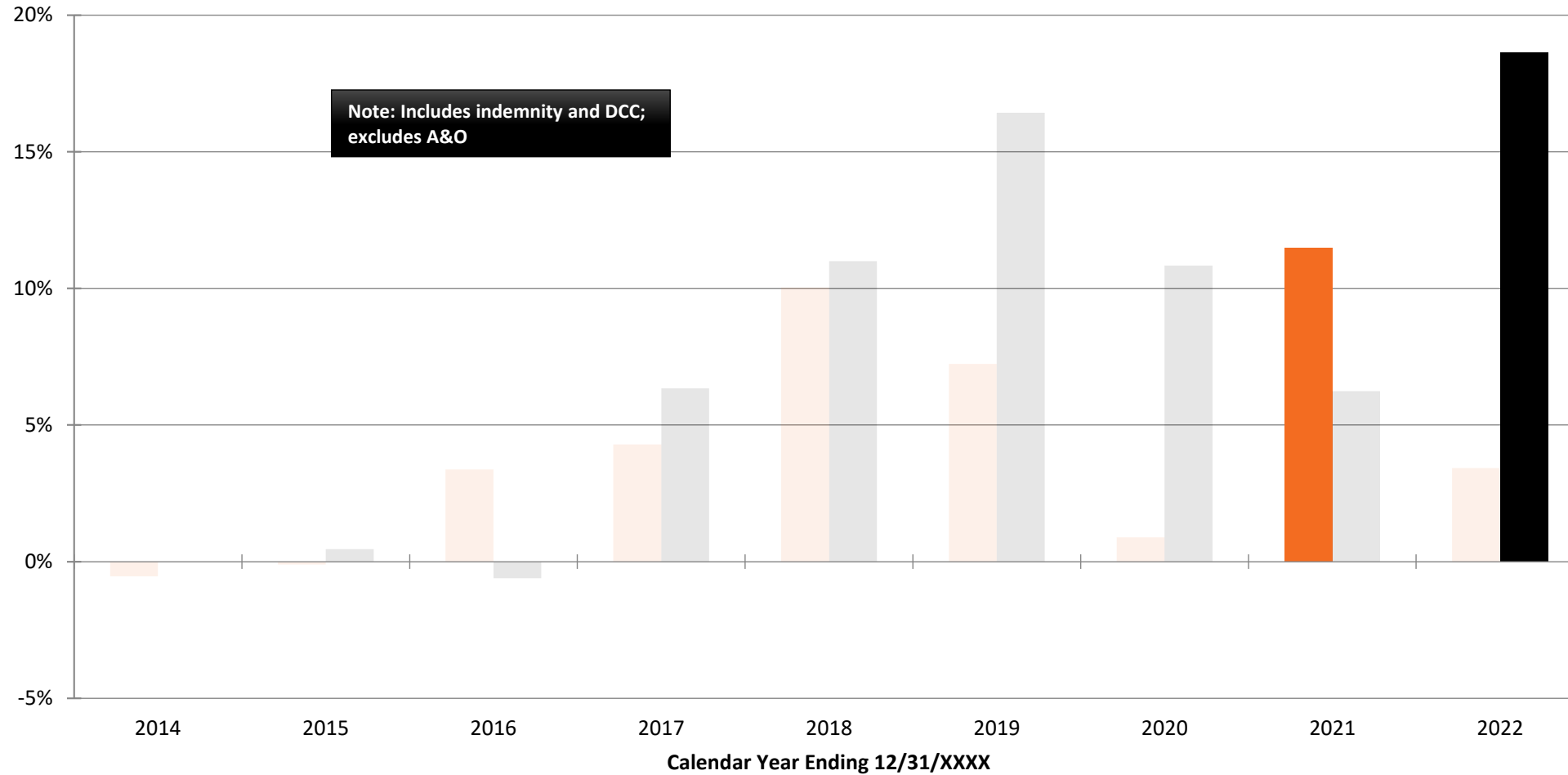
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One-Year Development Ratio Two-Year Development Ratio

Reserve Development: Schedule P – Part 2 – Summary

Accident Year	Calendar Year (in \$Millions)										Development		
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	One Year	Two Year	Since 1st Eval
2013	451	434	435	431	432	439	444	445	445	445	1	0	(5)
2014		607	604	599	596	604	613	612	612	614	1	1	6
2015			803	854	887	916	930	931	930	932	2	1	129
2016				1,039	1,063	1,113	1,134	1,139	1,139	1,141	2	2	102
2017					1,011	1,072	1,114	1,138	1,175	1,197	21	59	185
2018						1,078	1,100	1,115	1,126	1,130	4	15	52
2019							1,203	1,172	1,197	1,215	18	43	12
2020								1,615	1,692	1,727	35	112	112
2021									1,481	1,445	(36)		(36)
2022										1,899			
Total		(17)	(2)	42	55	155	112	16	149	48	48	233	558

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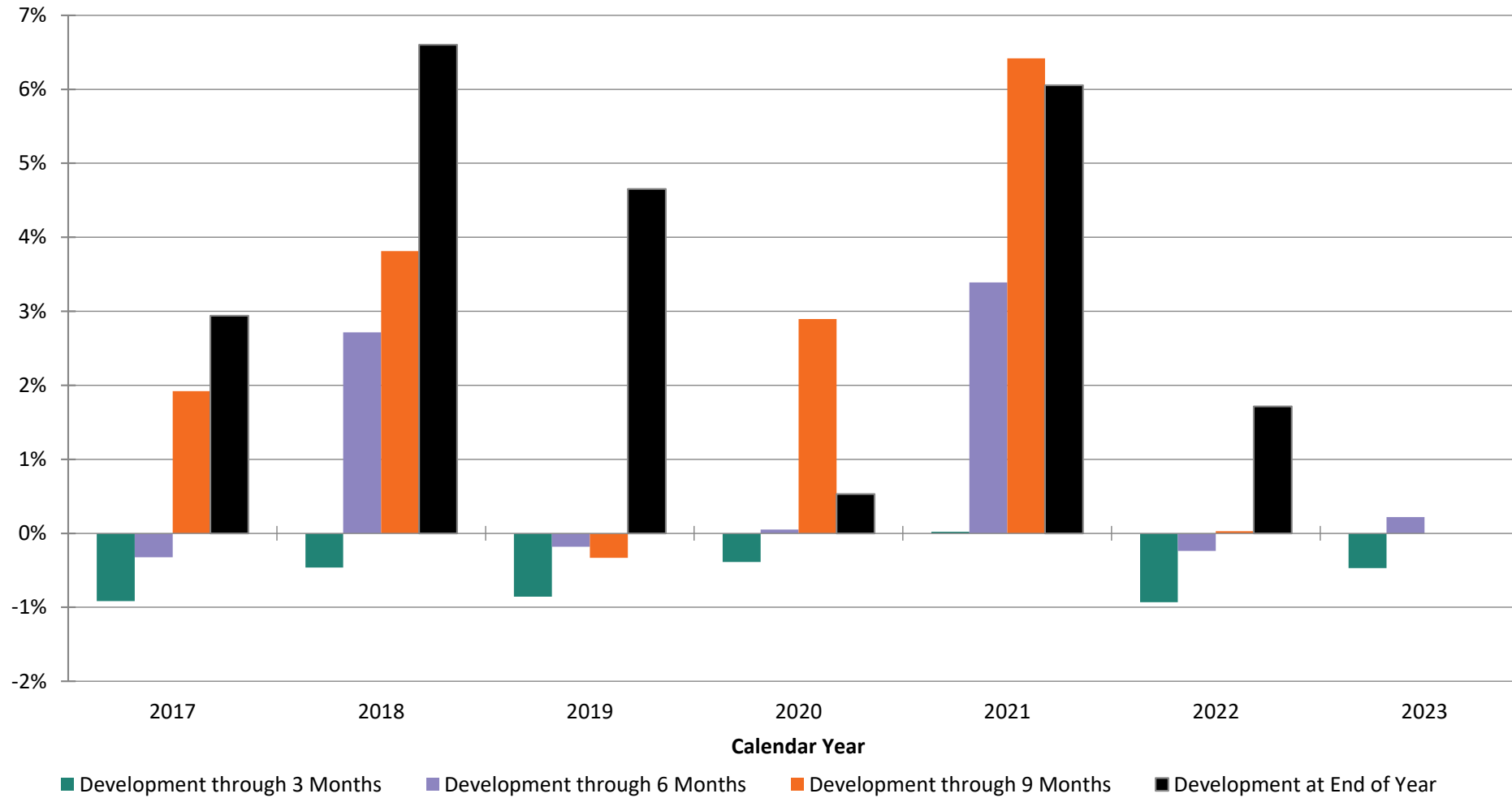
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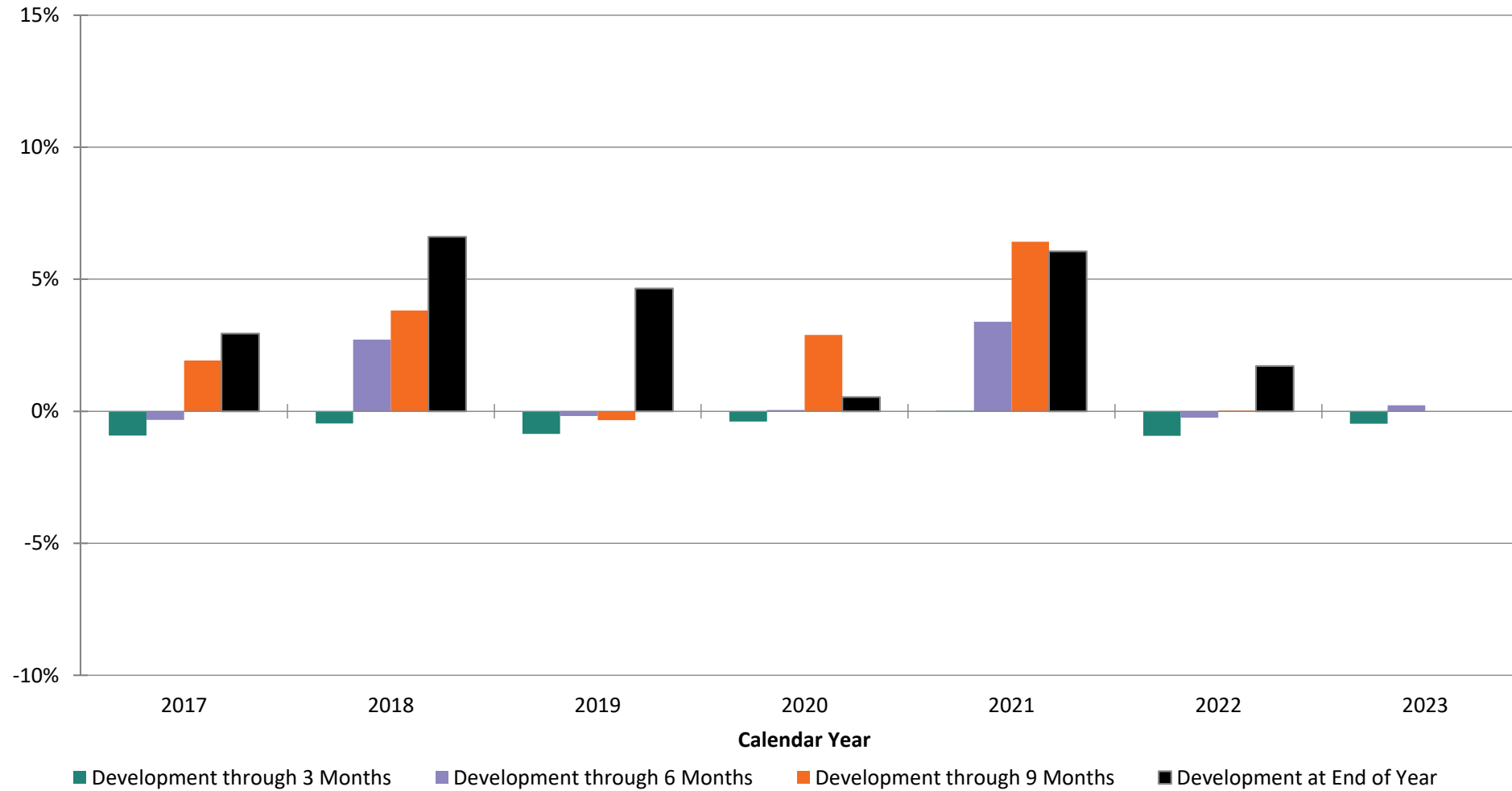
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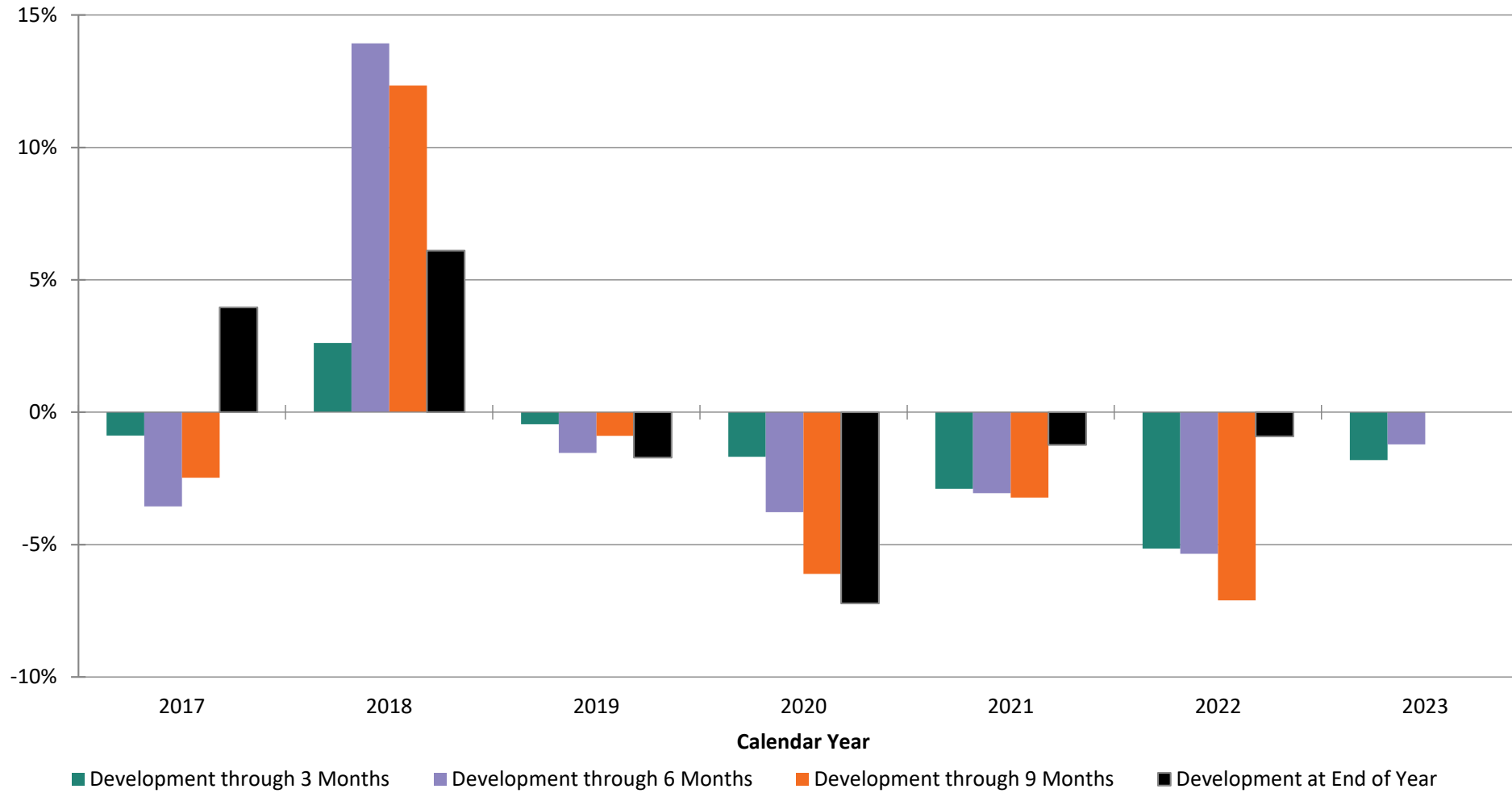
Calendar Quarter Development: All Companies



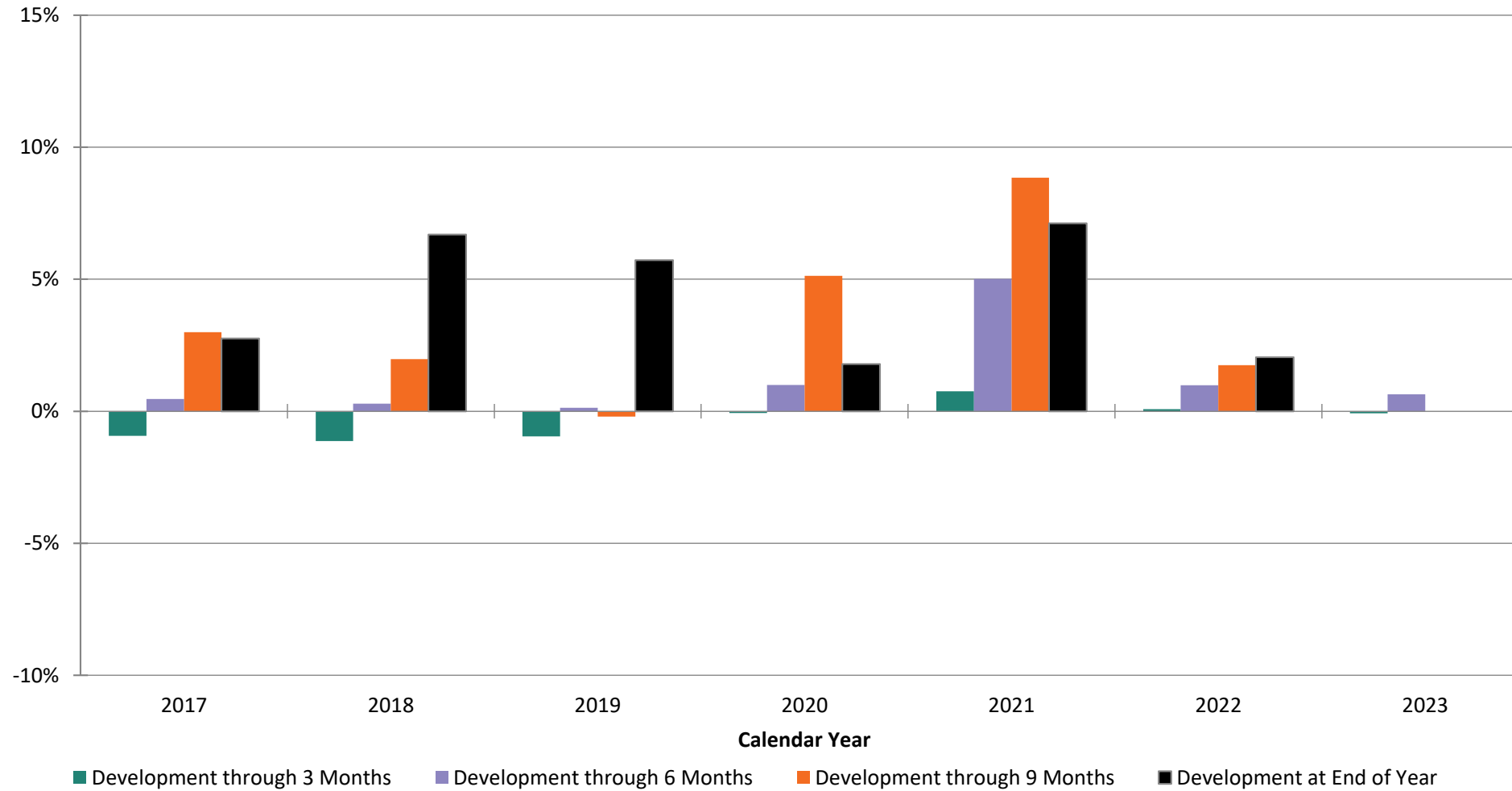
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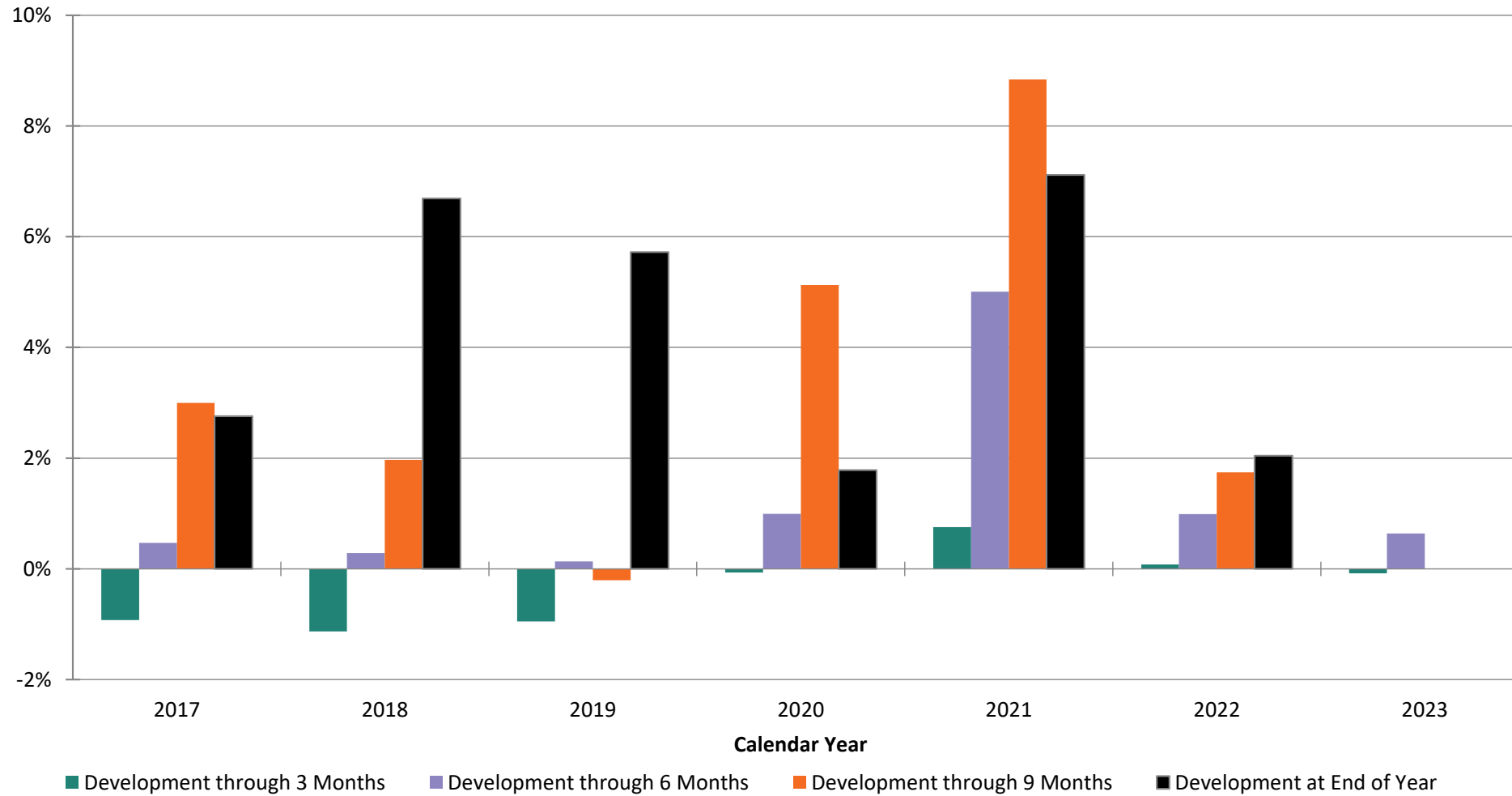
Calendar Quarter Development: Large Company



Calendar Quarter Development: Ex-Large Company



Calendar Quarter Development: Ex-Large Company



Reserve Analysis: Homeowners/Farmowners

- Central estimate of unpaid loss & LAE
- Net of ceded reinsurance
- Net of anticipated S&S
- Exposures (i.e., earned house years) unavailable
 - Frequency
 - Loss costs
 - Average premium
- Inconsistent and unreliable claim counts

Limitation: Pinnacle's estimates are based on a limited analysis of publicly available data. The availability of company specific information (e.g., exposures, claims counts, catastrophe claims, etc.) could have a material impact on our analysis.

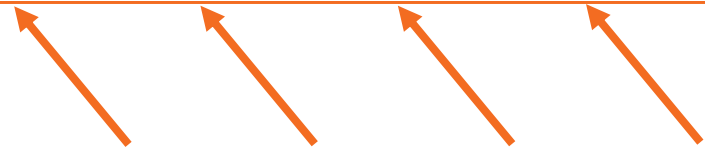
Ratio of Incremental Paid to Prior Case Reserves

Accident Year	Maturity (Age in Months)									
	12	24	36	48	60	72	84	96	108	120
2013		146.8%	121.7%	108.7%	106.6%	155.7%	117.7%	167.9%	64.1%	123.8%
2014		179.4%	108.1%	111.1%	111.9%	159.2%	101.6%	112.9%	66.8%	
2015		178.5%	141.9%	163.5%	152.8%	125.6%	112.5%	95.8%		
2016		166.8%	150.9%	154.9%	137.0%	125.4%	63.0%			
2017		204.3%	144.6%	167.3%	234.3%	145.9%				
2018		240.4%	167.1%	134.9%	52.4%					
2019		226.7%	170.1%	166.6%						
2020		263.0%	178.0%							
2021		299.5%								
2022										

Implied Paid Loss & DCC Development Factors

Accident Year	Age-to-Age Factors									
	12-24	24-36	36-48	48-60	60-72	72-84	84-96	96-108	108-120	120-Ult
2013	1.414	1.114	1.050	1.029	1.025	1.011	1.009	1.002	1.002	
2014	1.594	1.098	1.057	1.028	1.017	1.007	1.005	1.002		
2015	1.541	1.125	1.061	1.026	1.013	1.009	1.004			
2016	1.447	1.101	1.053	1.021	1.012	1.004				
2017	1.532	1.109	1.056	1.049	1.019					
2018	1.430	1.086	1.041	1.010						
2019	1.426	1.080	1.047							
2020	1.491	1.108								
2021	1.494									

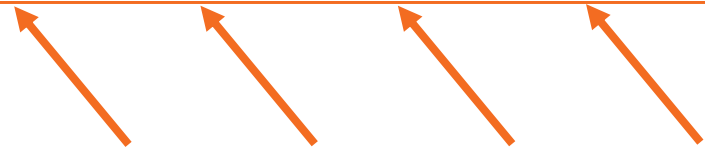
	Industry Implied									
LDF	1.629	1.020	1.027	1.009	0.991	1.015	1.009	1.000	1.002	1.002
Cumulative	1.753	1.076	1.055	1.028	1.019	1.028	1.012	1.003	1.003	1.002



Implied Reported Loss & DCC Development Factors

Accident Year	Age-to-Age Factors									
	12-24	24-36	36-48	48-60	60-72	72-84	84-96	96-108	108-120	120-Ult
2013	1.206	1.065	1.031	1.018	1.018	1.007	1.007	1.001	1.002	
2014	1.306	1.058	1.031	1.014	1.013	1.005	1.004	1.001		
2015	1.287	1.072	1.040	1.019	1.011	1.005	1.002			
2016	1.217	1.067	1.034	1.015	1.009	1.002				
2017	1.307	1.066	1.043	1.041	1.012					
2018	1.275	1.064	1.030	1.000						
2019	1.257	1.061	1.033							
2020	1.333	1.073								
2021	1.322									

	Industry Implied									
LDF	1.475	1.016	1.014	1.004	0.988	1.013	1.007	1.000	1.001	1.000
Cumulative	1.540	1.044	1.027	1.013	1.009	1.021	1.008	1.001	1.001	1.000



Paid A&O to Paid Loss & DCC Ratios

Florida Homeowners Industry - Select Companies Comparison of Net Paid A&O Ratios as of December 31, 2022 (in \$000s)

Calendar Year	Industry Paid A&O	Industry Paid Loss & DCC	Industry Paid-to-Paid Ratio	Industry Implied Ratio
2017	\$185,682	\$1,003,197	18.5%	
2018	167,311	1,235,461	13.5%	
2019	188,781	1,197,928	15.8%	
2020	247,311	1,613,437	15.3%	
2021	234,546	1,642,096	14.3%	
2022	273,928	1,784,809	15.3%	
Total	\$1,297,559	\$8,476,928	15.3%	3.5%

Comparison of Pinnacle's Net Ultimate Loss & ALAE

Florida Homeowners Industry - Select Companies

Comparison of Pinnacle's Net Ultimate Loss & ALAE as of December 31, 2022 (in \$000s)

Accident Year	Unpaid Loss & ALAE 12/31/2021	Pinnacle Selected Ultimate Loss & ALAE		Difference in Ultimate Loss & ALAE	Percentage Difference in Unpaid
		12/31/2021	12/31/2022		
2013	\$1,488	\$445,200	\$445,550	\$350	23.5%
2014	4,489	614,725	613,775	(950)	(21.2%)
2015	11,501	936,925	934,500	(2,425)	(21.1%)
2016	22,380	1,144,550	1,138,175	(6,375)	(28.5%)
2017	39,998	1,182,800	1,182,600	(200)	(0.5%)
2018	67,008	1,165,300	1,143,000	(22,300)	(33.3%)
2019	125,498	1,254,300	1,248,900	(5,400)	(4.3%)
2020	318,637	1,795,900	1,806,000	10,100	3.2%
2021	672,030	1,571,100	1,605,700	34,600	5.1%
Total	\$1,263,029	\$10,110,800	\$10,118,200	\$7,400	0.6%

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Actual vs Expected Development – Reported

Florida Homeowners Industry - Select Companies Reported Loss & ALAE Actual vs. Expected (in \$000s)

Accident Year	IBNR Loss & ALAE 12/31/2021	Incremental Reported Loss & ALAE		Difference	Residual IBNR
		Actual	Expected		
2013	\$702	\$897	\$468	\$429	(\$195)
2014	2,268	643	1,295	(652)	1,625
2015	7,380	1,932	3,929	(1,997)	5,448
2016	14,858	2,266	5,824	(3,558)	12,592
2017	25,126	14,298	11,180	3,118	10,828
2018	45,768	478	18,765	(18,287)	45,290
2019	93,441	38,151	42,371	(4,220)	55,290
2020	229,107	114,308	99,366	14,942	114,799
2021	523,837	337,232	318,097	19,135	186,605
Total	\$942,487	\$510,205	\$501,294	\$8,911	\$432,282

Actual vs Expected Development – Paid

Florida Homeowners Industry - Select Companies

Paid Loss & ALAE Actual vs. Expected (in \$000s)

Accident Year	Unpaid Loss & ALAE 12/31/2021	Incremental Paid Loss & ALAE		Difference	Residual Unpaid
		Actual	Expected		
2013	\$1,488	\$974	\$992	(\$18)	\$514
2014	4,489	1,480	2,563	(1,083)	3,009
2015	11,501	3,948	6,120	(2,172)	7,553
2016	22,380	4,744	10,218	(5,474)	17,636
2017	39,998	21,695	17,585	4,110	18,303
2018	67,008	11,121	29,816	(18,695)	55,887
2019	125,498	53,401	55,155	(1,754)	72,097
2020	318,637	159,384	135,044	24,340	159,253
2021	672,030	443,767	397,902	45,865	228,263
Total	\$1,263,029	\$700,514	\$655,394	\$45,120	\$562,515

Comparison of Net Unpaid Loss & LAE

Florida Homeowners Industry - Select Companies

Net Unpaid Loss & LAE as of December 31, 2022 (\$000s)

	Pinnacle	Industry	Redundancy / (Deficiency)	
	Estimated	Carried	Amount	Percent
Case Loss & DCC	\$280,413	\$280,413	\$0	0.0%
IBNR Loss & DCC	1,111,967	832,915	(279,052)	(25.1%)
A&O	66,296	33,674	(32,622)	(49.2%)
Total	\$1,458,676	\$1,147,002	(\$311,674)	(21.4%)

Limitation: Pinnacle's estimates are based on a limited analysis of publicly available data. The availability of company specific information (e.g., exposures, claims counts, catastrophe claims, etc.) could have a material impact on our analysis.

Comparison of Net Ultimate Loss & LAE

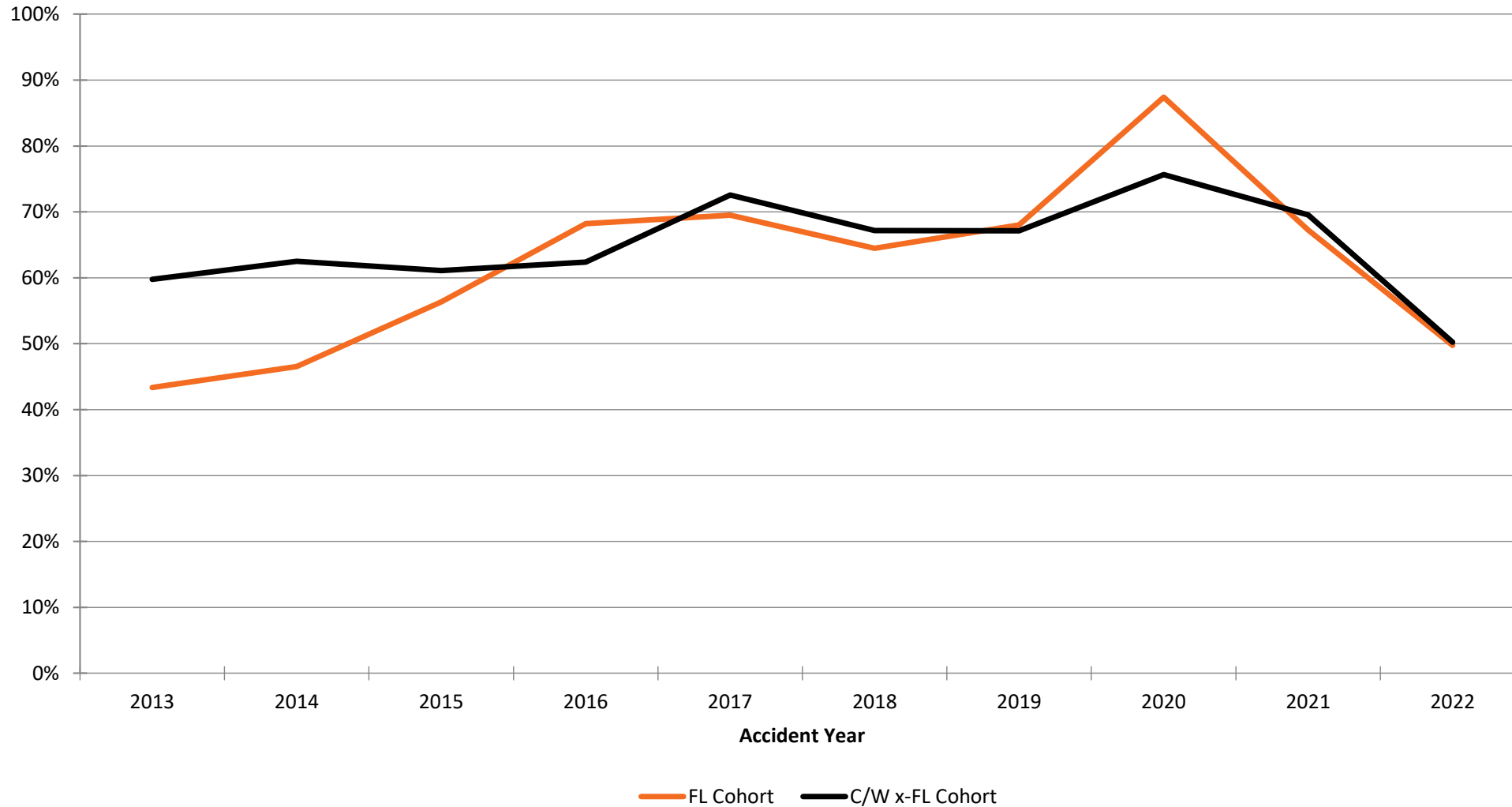
Florida Homeowners Industry - Select Companies

Comparison of Net Ultimate Loss & LAE as of December 31, 2022 (in \$000s)

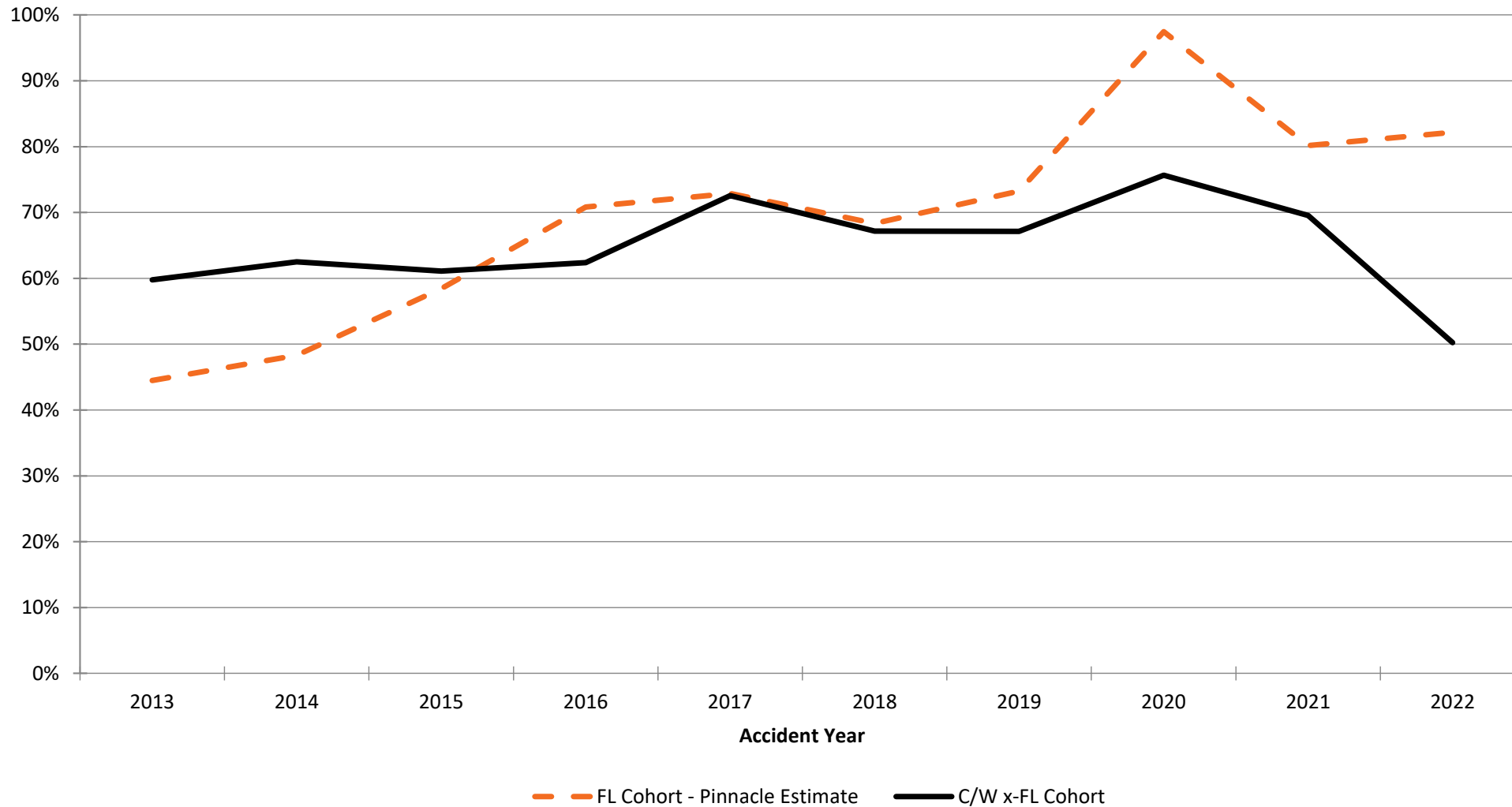
Accident Year	Industry Unpaid Loss & LAE	Selected Ultimate Loss & LAE		Difference in Ultimate Loss & LAE	Percentage Difference in Unpaid
		Industry	Pinnacle		
2013	\$808	\$536,322	\$536,405	(\$83)	(9.3%)
2014	2,122	733,605	733,614	(9)	(0.4%)
2015	3,420	1,076,448	1,078,372	(1,924)	(36.0%)
2016	14,643	1,305,178	1,302,259	2,919	24.9%
2017	32,940	1,399,335	1,385,259	14,076	74.6%
2018	21,896	1,301,776	1,314,965	(13,189)	(37.6%)
2019	36,985	1,404,443	1,437,241	(32,798)	(47.0%)
2020	95,386	1,959,451	2,041,208	(81,757)	(46.2%)
2021	112,839	1,681,444	1,844,282	(162,838)	(59.1%)
2022	825,963	2,163,278	2,199,349	(36,071)	(4.2%)
Total	\$1,147,002	\$13,561,280	\$13,872,954	(\$311,674)	(21.4%)

Limitation: Pinnacle's estimates are based on a limited analysis of publicly available data. The availability of company specific information (e.g., exposures, claims counts, catastrophe claims, etc.) could have a material impact on our analysis.

Net Loss & LAE Ratio



Net Loss & LAE Ratio – Pinnacle FL Estimate



Are We There Yet?



Market Reaction

- Plaintiffs' attorneys filed 280K lawsuits in 4/2023
- New Florida market entrants – primarily insurtech and reciprocals
- Citizens' depopulation
- Greater interest from capital markets – ILS deals
- Renewed reinsurance capacity

Reserving Considerations

- CAT models – include litigation costs?
- Trending – bifurcate litigated vs non-litigated claims
- Loss development patterns
 - Litigated vs non-litigated claims
 - Accelerated settle
 - Truncated tail factors – reduced IBNR provision
- ALAE to loss ratios
- Prudence

The background of the image consists of numerous 3D-rendered white question marks of varying sizes and orientations, scattered across a light gray gradient that fades from left to right. The question marks are rendered with soft shadows, giving them a three-dimensional appearance.

Questions

Thank You!

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Appendix: Insolvencies



Prior Florida Insolvencies

- 2014: Sunshine State Insurance Company
- 2018: Sawgrass Mutual Insurance Company
- 2019: Florida Specialty Insurance Company
- 2020: Windhaven Insurance Company
- 2021
 - American Capital Assurance Corporation
 - Gulfstream Property & Casualty Insurance Company

2022 Florida Insolvencies

- St. Johns Insurance Company
- Avatar Property & Casualty Insurance Company
- Lighthouse Property Insurance Corporation*
- Southern Fidelity Insurance Company
- Weston Property & Casualty Insurance Company
- United Property & Casualty Insurance Company**
- FedNat Insurance Company

*Louisiana domiciled, but includes Prepared Insurance Company

**Orderly run-off, not liquidation

2023 Florida Insolvencies

- United Property & Casualty Insurance Company
- Capacity Insurance Company*

*Orderly run-off, not liquidation

Appendix: Impact on Florida



US Residual Markets

US Residual Markets 2022 FAIR Plan Distribution by State

State	Policies in Force	TIV (\$Millions)	Market Share (TIV)
FL	1,220,897	\$422,953	51%
CA	261,421	209,808	25%
MA	197,177	90,573	11%
LA	154,507	40,935	5%
NC	218,506	33,405	4%
TX	66,488	11,302	1%
NY	23,197	6,892	1%

US Excess & Surplus Market

US Excess & Surplus Markets Homeowners, Fire & Allied Lines

State	E&S DWP to Total P&C Industry DWP				
	2018	2019	2020	2021	2022
LA	13%	14%	15%	17%	18%
FL	13%	13%	14%	16%	17%
SC	10%	11%	14%	15%	16%
TX	7%	8%	9%	11%	12%
CA	6%	7%	8%	10%	11%
AL	7%	8%	9%	10%	11%
NY	6%	7%	8%	8%	9%
NJ	5%	7%	7%	8%	8%

Source: S&P Global based on NAIC data

Appendix: Are We There Yet?



New Florida Market Entrants

2022

- Loggerhead Reciprocal Interinsurance Exchange
- Slide Insurance Company
- Tower Hill Insurance Exchange
- VYRD Insurance Company

2023

- Mainsail Insurance Company
- Orange Insurance Exchange
- Orion180 Insurance Company
- Orion180 Select Insurance Company
- Tailrow Insurance Company

Citizens' Depopulation

Source: [Florida Office of Insurance Regulation](#)
as of October 21, 2023

FLORIDA OFFICE OF INSURANCE REGULATION 2023 Company Take-Out Approvals by Assumption Date

Company	Assumption Date	Policy Count
Cypress Property and Casualty Insurance Company	4/2023	5,000
Edison Insurance Company	4/2023	5,000
Florida Peninsula Insurance Company	4/2023	10,000
Monarch National Insurance Company	6/2023	46,218
Loggerhead Reciprocal Interinsurance Exchange	8/2023	1,000
Slide Insurance Company	8/2023	25,000
Florida Peninsula Insurance Company	10/2023	19,000
Monarch National Insurance Company	10/2023	10,000
Safepoint Insurance Company	10/2023	30,000
Slide Insurance Company	10/2023	100,000
Southern Oak Insurance Company	10/2023	25,000
Edison Insurance Company	11/2023	5,000
Florida Peninsula Insurance Company	11/2023	30,000
Total		646,617

Citizens' Depopulation

Source: [Florida Office of Insurance Regulation](#)
as of October 21, 2023

FLORIDA OFFICE OF INSURANCE REGULATION 2023 Company Take-Out Approvals by Assumption Date

Company	Assumption Date	Policy Count
Homeowners Choice Property & Casualty Insurance Company	11/2023	75,000
Loggerhead Reciprocal Interinsurance Exchange	11/2023	6,000
Monarch National Insurance Company	11/2023	20,399
Safepoint Insurance Company	11/2023	16,000
Slide Insurance Company	11/2023	50,000
American Traditions Insurance Company	12/2023	12,000
Edison Insurance Company	12/2023	10,000
Florida Peninsula Insurance Company	12/2023	15,000
Orange Insurance Exchange	12/2023	15,000
Safepoint Insurance Company	12/2023	16,000
Slide Insurance Company	12/2023	75,000
TypTap Insurance Company	12/2023	25,000
Total		646,617

Citizens' Depopulation

Source: [Florida Office of Insurance Regulation](#)
as of October 21, 2023

FLORIDA OFFICE OF INSURANCE REGULATION

2023 Company Take-Out Approvals by Company

Company	Policy Count
American Traditions Insurance Company	12,000
Cypress Property and Casualty Insurance Company	5,000
Edison Insurance Company	20,000
Florida Peninsula Insurance Company	74,000
Homeowners Choice Property & Casualty Insurance Company	75,000
Loggerhead Reciprocal Interinsurance Exchange	7,000
Monarch National Insurance Company	76,617
Orange Insurance Exchange	15,000
Safepoint Insurance Company	62,000
Slide Insurance Company	250,000
Southern Oak Insurance Company	25,000
TypTap Insurance Company	25,000
Total	646,617
