

Asymmetric Information in the Florida Homeowners Insurance Market

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Since 2017, six insurance companies that previously offered property and casualty insurance in Florida have exited the market. At the same time, the remaining insurance companies are increasing prices dramatically. The Insurance Information Institute expects homeowner's insurance premiums in Florida to increase on average by 40% in 2023 compared to 2022. The increasing frequency and intensity of hurricanes in the Atlantic is adding additional stress to an already stressed market. For all of these reasons, there are concerns that the private home insurance market in Florida is on the edge of collapse. We examine the role of informational asymmetries between the policy holder and the insurance provider to determine how information can improve the situation. Furthermore, we consider how anticipated inspections may exacerbate the problem.

The probability that a claim will be filed is lower for those homes that recently had a home inspection, relative to those that have not had an inspection yet.

We use data from Citizens Insurance, the state-provided insurance company in Florida. Beginning in 2013, Citizens required all homes older than 30 years to obtain an extensive four-point inspection of the roof, plumbing, electrical, and HVAC systems. For the inspected homes, the quality of all these systems is known and the insurer can require deteriorated systems to be replaced in order to maintain coverage. We use the 30-year cutoff as exogenous variation and compare the probability of filing an insurance claim following Hurricane Irma in 2017 of homes that recently had an inspection to the probability of homes that did not yet have an inspection. We find that homes that were over 30 years old were not more likely to file a claim. However, homes that were between 25 and 30 years old that had not yet had an inspection, but would in the near future, were significantly more likely to file an insurance claim.

For extreme weather events that occurred prior to the 2013 inspection requirement, there is no significant effect on the probability of a claim based on the age of the home.

We compare the age-related claim-filing after the 2005 hurricane season where several storms made landfall in the state of Florida, most notably Hurricane Katrina. Importantly, the four-point inspection was not required in 2005. In 2005, we do not find any difference in the probability of filing a hurricane related claim based on the age of the home.

We find that the anticipated 30-year inspection increases the probability of a claim before the inspection but does not reduce the probability of filing a claim after the inspection.

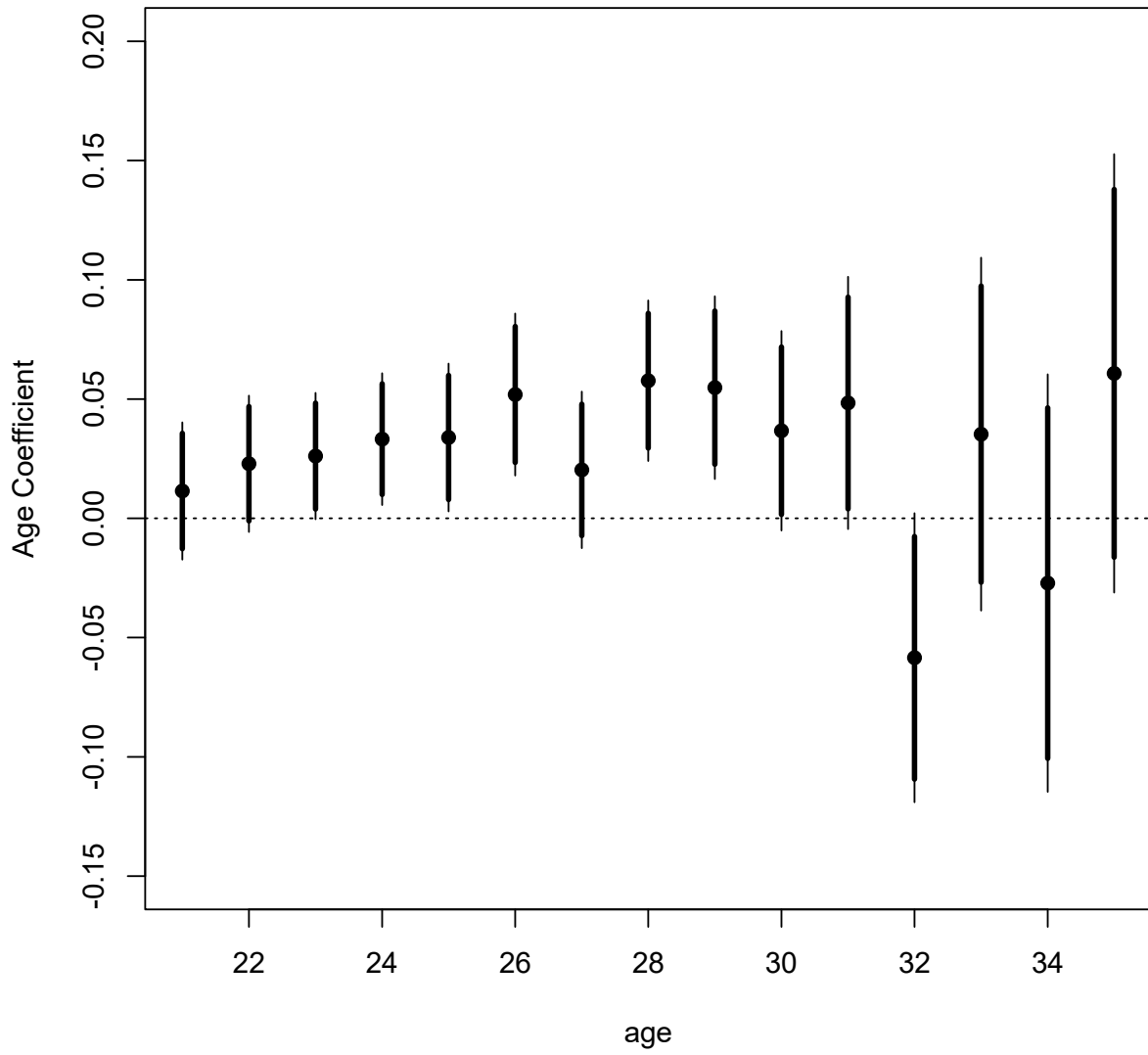
We compare the age-related probability of filing a claim with an inspection – Hurricane Irma - to the age-related probability of filing a claim without an inspection – Hurricane Katrina. This comparison allows us to determine if the pattern observed for Hurricane Irma is due to the inspection providing information and reducing the probability of a claim or if the anticipation of revealing information makes individuals more likely to file a claim. We find homes that were 25-30 years old were significantly more likely to file a claim after Hurricane Irma than after Hurricane Katrina. For those homes over 30 years old, there is no statistical difference in the probability of

filing a claim between the two periods. This suggests the inspection requirement has unintended consequences, where knowing the inspection is coming causes people to misattribute normal wear on the house to a storm.

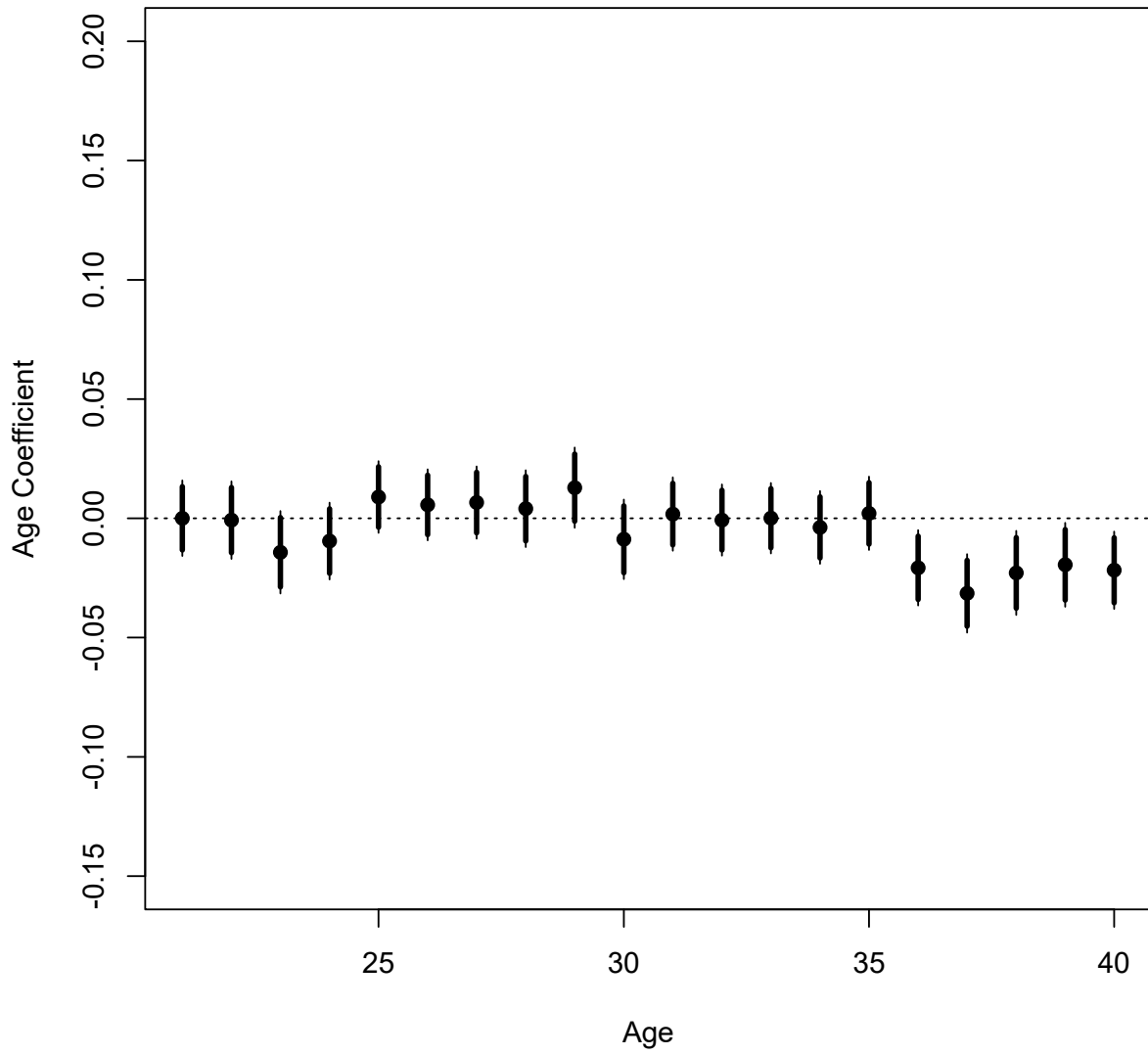
Implications

- Insurers in Florida need to increase the amount of information on the condition of homes prior to storms in order to help identify which claims are valid.
- Individuals appear to respond to known, upcoming inspections. Random inspections may be a better option to address the unintended consequences found in our analysis.
- Insurers should consider using technology to gather more information more frequently, such as using drones to identify normal wear over the course of the year.
- Florida recently changed their laws to remove one-way attorney fees and the use of AOBs in homeowner insurance claims. We believe these policy changes are likely to reduce the incentive of third parties (lawyers and contractors specifically) to participate in situations where fraudulent claims are filed.
- Currently, if at least 25% of the roof is damaged the insurer is responsible for the full replacement cost of the roof. Further legislative changes should be considered to address this high cost for insurance companies, such as using the actual cost value which adjusts for depreciation.

Irma Age Effect



Katrina Age Effect



Irma - Katrina Age Effect

