Jacaranda Country Club Villas Condominium Association, Inc.

Board of Directors Meeting June 8, 2023, at 1:00 p.m.
Via Zoom Teleconference Services

APPROVED

CALL TO ORDER: The meeting was called to order by President Joe Claro at 10:00 a.m.

BOARD MEMBERS PRESENT:
Joe Claro, President
Lee Snell, Vice President *
Judy Liston, Treasurer*
Katie Derrohn, Secretary*

SUNSTATE MANAGEMENT GROUP STAFF PRESENT:
David Altiero along with 23 residents via zoom.

DETERMINATION OF THE QUORUM:
President Joe Claro determined that a quorum was established.

NEW BUSINESS:

- **Master Flood Policy Discussion –** Judy Liston reviewed the Flood Policy Packet that was distributed. Reports attached. A brief discussion regarding the flood policy followed.
    - **A motion was made** by Lee Snell that association doesn't have a master flood policy, and owners should obtain their own. Katie Derrohn seconded. Motion passed unanimously.
- **2023-2024 Insurance Policies Discussion** – Judy Liston review the Insurance renewal handout also attached. A brief discussion regarding the insurance policies followed.

RESIDENT COMMENTS/INQUIRIES:

NEXT MEETING: June 26, 2023

ADJOURNMENT: With no further Association business to discuss, ***Lee Snell made a motion to adjourn at 10:53 a.m.Kattie Derrohn seconded the motion which passed unanimously.***

Respectfully submitted,

David Altiero, LCAM

For the Board of Directors for Jacaranda Country Club Villas

JCCV May Variance Report

To the JCCV Board:
The variance report for May is:
1-Legal Fees are $9 in April, $1961 in March, and $775 in January to provide legal advice on the LOC contract. **This totals $2744 vs an annual budget of $3000 so we have very little left.**

2-Administrative is $95 in May, $101 in April, $468 in March, $605 in February, and $216 in January. This totals $1485 vs $2300 budgeted. This includes handouts and postage for several Special Assessment meetings and the Annual meeting (2 mailings in January and March)
3-Insurance is $67,645 YTD which is $2336 under budget as we **budgeted for a 30% increase** in June when our policies renew for the June-Dec period. **We got the Sedgwick "cost to rebuild" appraisal and that went up 14%.**
We have since gotten the policies (renewing June 19) and Insurance has gone up 196% so the board will vote on an Insurance Special Assessment June 26 of $399 due July 1 and October 1.

4-Interest on the Line of credit is $180 for May, $1285 for April, $867 for March and 0 for prior months. (currently 8.25% interest with the FED subsequently hiking rates another 0.25%) Budgeted $17,500 for the year so **this will be a source of around $15K of funds if we can keep the LOC paid down as it was budgeted at 7.0% on $250K loan balance for Jan-Dec. My recommendation is for the board to vote to move the leftover funds to Pool Liner reserves at EOY since the pool liner is underfunded by $20K so this would enable us to have funds to replace the liner by December 2024 if necessary.** (Note this "savings" is included in the net income figures discussed below, it is NOT additive.)
We paid off $176,581 of the LOC loan on 4/18/2023 and $22,352 on 6/5/2023 leaving a balance of zero owed. As other claims come in, we will pay them directly from the Hurricane S/A income stream rather than using the LOC.

5-The pool license renewed in May for $425, budgeted at $500.

6-Maintenance repairs general is $1058 YTD vs $2000 budget so it is $224 over the monthly straight line budget. This was $117 in May for material to install pavers in front of several mailboxes, -$103 in April because we moved the $530 for pool fans in February to be paid from reserves and charged $427 to this account to replace the secondary retainers for the pool chemical tubs in April. March was $399 (fire extinguisher inspection $285 and $114 for replacement lamp post lights), $115 in January to replace electric cells for lamp posts.)

7-Pest control was $520 in May for quarterly outside treatment, $504 in March for semi-annual interior treatment and $530 in February for quarterly outside treatment.. This annualizes to $3128 vs $3080 budget.
8-Rodent control is $44 each month in Jan thru May which is on target..
9**-Landscape Replacement supplies is** $42 for flowers at the front wall **plus $2400 for sod replacement in April vs $1200 for the year. Sod replacement will be journaled to a new account as it is part of hurricane recovery and we will pay it out of hurricane assessment income rather than quarterly dues. We currently have $19,920 in similar expenses that occurred immediately after the storm.** This is part of that process to get back to a normal landscape.

9-Common area mulch was $2016 which is a $700 increase in what we budgeted, due to the cost of material increasing the past year.
10-**Irrigation repair was $1200 in April (to replace the clocks at stations 12 & 24)**, $305 in January (to repair a 2" line break under pool pavers and $130 for a smaller break behind 894. **This totals $1505 YTD vs $2500 budget. This is $463 over the monthly straight lined budget.**
11**-Tree Replacement is $250 in April to remove a palm between 885 and 887 that was damaged in the hurricane. This will be journaled to account 7950.01 Hurricane Damages-Trees.**

12-Pool Contract was $310 in May, $580 in April ($310 for pool service and **$270 for black algae treatmen**t,) $425 in March ($310 for pool service and $115 for a new buoy, feeder tubing, and chemical bucket), $630 in February which included $290 to replace a breaker in the Symbiont geothermal heater for the pool in October (but we didn't get the bill until 2/27/23), and $310 in January for pool service. YTD is $2255 vs $4600 budget. **We are $338 over the monthly straight line budget.**
13-Pool pavers were $350 in April with the 6 month paver soft wash service done in March.
14-Water/sewer was $171 in May, $105 in April, $129 in March,$119 in February, and $102 in January..This is $17 under budget so far this year.
15-Electricity is $476 in May, $600 in April, $727 in March, $768 in February, and $859 in January. This is $3432 YTD and **$987 over budget so far this year.** FPL is taking numerous rate increases based on their cost increases.

16-Hurricane repair/drywall was $2600 in January. This was paid out of working capital because the LOC

was not yet available. This is budgeted in the Special Assessment $277K and will be repaid to WC out of the assessment income stream at EOY.
17-Hurricane Damage-Trees is $410 in May ($300 to remove 1 tree and repair another 2/3/2023 and $110 to rebrace the palm at the front wall which is bent over from the hurricane).
18-Hurricane Debris Removal was $2000 in February due to late billing of vegetation removal done in November. This was paid out of working capital because the LOC was not available. This is budgeted in the Special Assessment $277K and will be repaid to working capital out of the assessment income stream at EOY. (The LOC was available 2/22/2023)

Remaining items either were on target or had no expense.
Reserves balance is $88,781 including the $4325 reserves contribution thru June 30 minus $530 replace pool cabana ceiling fans on 2/7/23 and $1861 to replace pool shower water heater 5/11/23.

The special assessment collections thru April total $225,751. We have paid out $198,933 in claims using the LOC. This is $112,545 for the roof contract, $64,036 to 12 owners for drywall reimbursement, $12,928 to 2 owners and $924 to two owners for drywall reimbursement and $8500 to another owner for drywall reimbursement. There are still several units that are in various stages of the quote process. None are under construction.

The board agreed in early April that we should pay down the LOC when we had received enough assessment income and we ratified that in the May 15 meeting. On 4/17/2023 we paid down the LOC by $176,581 saving us $1,214/month at the current interest rate of 8.25%. That leaves a balance of $22,352 (as of 5/9/2023) that we will be paying 8.25% interest until we receive more assessment income and can make another loan repayment. (The interest rate is probably 8.5% with the 5/3/2023 Fed interest rate increase.) We paid $22,352 on the LOC 6/5/2023 leaving a balance of zero owed.

Net income is $2069 for January, $2087 for February, $1253 for March and $2039 for April and $4376 for May with YTD $11824 after backing out hurricane expenses (7950.xx) which will be paid from the assessment income stream (not from quarterly dues). This needs 2 correcting JE's to April expenses to move $2400 sod from 6100.03 to (new account) 7950.05 Hurricane Landscape Recovery and $250 tree replacement from 6101.01 to 7950.01 Hurricane -DamageTrees. (**Prior months variance reports had incorrect net income because they included some $4k+ expenses that are hurricane related so they will be paid from the assessment income stream, not from quarterly dues.)** This has taken me 4 months to realize that issue is occurring..

Six owners have not paid the 6/1 Hurricane Assessment.
Two owners have not paid April 1 dues as of May 31. They were contacted by a board member and "the check is in the mail". Two others owe misc smaller amounts.
Judy Liston
Dir Finance & Insurance
JCCV COA

Final Master Flood Evaluation

Should the JCCV Association add a Master Flood Policy to our Insurance? 6/03/2023
Note: 13 owners out of 72 had flood claims from Hurricane IAN 9/28/2022. $105K? Assoc uninsured loss
<u>Master Flood Quote</u> $43,755 ($152/qtrly dues). Covers **$250K/condo (our avg= $367K, so 68% coverage)**
Need an Excess Flood Policy quote $____Need Flood appraisal which incl foundation $600??
(Insurance agent looking for Excess Flood quote for us. These are very hard to find.)
<u>Building Coverage Master Flood Policy $18,000,000 maximum per FEMA limits($250K/condo) (If no Master policy, the Association pays this as an uninsured loss) Deductible $1250 per building</u>
*1-**Exterior shell of the building including the roof** and through the walls including mudding the*

drywall per 1980's floorplan but code compliant (i.e. excluding windows, doors, garage door etc. that are not original to the building. These are the owner's responsibility per FL Statute.)
*2-**Air conditioner** (a basic model that is code compliant, not an upgraded a/c or a heat pump.)*
*3-**Buildout of all interior walls** (per the 1980's floorplan) thru to drywall and mudding. This excludes owner changes such as a passthru from kitchen to dining room which is the owner's responsibility.*
No Content coverage on a Master Flood Policy. Owners need to get their Own Flood Policy.

Owners Flood Policy may include items 1-3 above at owner's option if the Association has no Master policy.
*4-**Buildout of all rooms** to make a kitchen, bedroom, living room per the 1980's floorplan but code compliant. This includes **all built in cabinets** (kitchen, bathroom etc), hot water heater and **all built in appliances** (**kitchen including the refrigerator**, bathroom), all permanently installed light fixtures, permanently installed flooring, wall covering (beyond the mudded drywall), and permanently mounted mirrors. Upgrades to cabinetry, appliances, flooring, lighting etc are the owner's responsibility.*
Building coverage includes #1-4 above. $250K/max. You decide the $ amount. $1250 deductible
Contents (aka Personal Property) up to $100K max. Includes Area rugs, washer/dryer,and items "that would fall out if you could turn your condo upside down and shake it". Excludes coins&currency. $1000 deductible

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NOTE: **the Association's Wind policy covers items 1-3 in the above list and costs $302,029 in 2023-2024. This insurance increased by 202%, 18% and 26% in the last 3 years. These increases include increases in cost to rebuild which increased by 14% in 2023, 17% in 2022 and 3.5% in 2021). The wind policy insures to the cost to rebuild, no FEMA cap of $250K, but with a 5%/building /occurrence (was per calendar year) deductible**
Judy Liston, Director Finance & Insurance, JCCV COA

JCCV Hurricane Management

JCCV Insurance Increase (*Draft, 1 carrier still to respond so # could go down)*
6/03/2023

Warning: This discussion switches back and forth between policy years (June 18, 2023-June 18, 2024) and calendar years and between Property Insurance ($302,029) and Total Insurance ($317,332) sometimes including 8% financing fee = $342,719) so it can be confusing at times.

Upcoming Board Action

This is the Board's plan to handle the 196% increase in insurance. The meeting of **June 8 with owners is a brainstorming session** to generate other workable options. If there are none, this is the plan. The board will vote in a 2-week noticed Zoom meeting on June 26, 2023 to levy a **special assessment of $399 /qtr due July 1, 2023 and October 1, 2023** to pay for the increase in our insurance policies that renew June 18, 2023. This packet explains the situation and will
also
be distributed to owners for the June 26 meeting, with appropriate updates.

What happened?
Our total insurance went up 196% with our June 18, 2023 renewal. Total cost went from $162,085 to $317,332. The lowest property insurance quote was from American Coastal, our current carrier, for $302K per year for property insurance vs $149K current policy. Property Insurance is our biggest expense ($302,029). Because our insurance increased more than 20%, we were eligible for a quote from Citizens, the state run insurer of last resort. Citizens' quote was substantially higher at $352K for property insurance.

We have four other policies totaling $15,303 for a total insurance cost of $317,332 for June 18, 2023-June 18, 2024. In March, Brown & Brown sent our Request For Quote to ALL carriers writing insurance in Florida that have strong financials (or A or A+ Demotech rating) so they cast as wide a net as possible for quotes for our property.

Insurance conditions in the Florida market
Insurance companies in Florida have had 2 consecutive years with net underwriting **losses of over $1 billion, even before Hurricane IAN**. Hurricane IAN on September 28, 2022 was the worst hurricane in Florida history with an estimated $84 billion in damages (estimate as of 10/16/2022). Until the market gets healthier, we will continue to have turmoil in insurance rates. Six carriers were declared insolvent in 2022 so it's hard to even find a company writing policies.

Per Barry Gilway, CEO of state-run Citizens, 40% to 50% of policyholders premiums go to reinsurance costs. Reinsurance provides backup coverage for carriers. It is particularly important in Florida, which depends heavily on Florida based insurers rather than larger national companies. A commentary released about 9/16/2022 before hurricane IAN by AM Best ratings pointed to reinsurers seeing losses in Florida despite moderate hurricane seasons (note this was before IAN) further suggesting that current prices are not adequate to cover claims inflation and fraud in the market.

Consequently reinsurers have been pulling back from the Florida property market or significantly raising prices. AM Best expects reinsurers to remain selective in the risks they insure, placing further burdens on the Florida homeowners market.

After Florida was hammered by a barrage of hurricanes in 2004 and 2005, the Citizens' policy count topped 1 million and remained above that mark until 2014. It dropped below 500,000 in 2016 and is now above 1 million since IAN 9/28/2022. So it took about 10 years to recover from the 2004-2005 seasons.

Insurance litigation is also a big factor in our rates. Florida has 9% of the U.S. home insurance **claims** but 79% of its home insurance **lawsuits**, many of them fraudulent. See page 2 of the attached 3 pages for a description of fraudulent claims and legislative action that has been taken as of 4/24/2023 to curtail this problem.

Detailed computations
1-The policy year is June 18, 2023-June 18, 2024. We will pay the higher insurance rate that should be in Jul-Dec dues via a special assessment payable $399 on July 1 and $399 on October 1. This needs to be approved by the board in a 14-day noticed meeting set for June 26, 2023 at 10AM via zoom. Packets explaining the assessment will be mailed to owners and eblasted by June 12 for the June 26 zoom meeting. (This

increase will roll into the 2024 dues January 1 so there will be no special assessment for the January and April quarterly dues.)

The computations are as follows based on the budget done October 2022
$162,085 current policy * 1.3 for 30% increase = **$210,710 budgeted for the next policy year** June 18, 2023-June 18,2024 / 12 = $17,559 budgeted/month for June 1, 2023-December 2023

$317,332 new policy / 12 = $26,444/month actual cost for insurance beginning June 1, 2023.
$26,444/month actual cost of insurance - $17,559 budgeted for **Jun-Dec 2023** = $8885/month shortage or $8885 * 6 months * **1.08 financing fee = $57,575 total shortage** for **Jul-Dec 2023**.
(We don't recover the shortage for June since that has already been collected in April 1 dues so let it fall to the bottom line as an $8885 unbudgeted expense. Otherwise this would add $67 to the Jul and Oct S/A. ($8885 * 1.08 finance fee / 72 owners / 2 payments = $66.64)

$57,575 shortage including 8% financing /6 months/72 owners $133**/month shortage per owner**

$133/month * 3 = **$399/qtr special assessment due July 1 and October 1**
This makes total dues $1123+$399 = $1522/qtr.

2-The new dues will be $1123 paid however you normally pay July 1 and October 1 dues, plus $399 paid separately via new coupon books the bank will send you. These are due July 1 and October 1. Because of the short notice to get coupon books, late fees will not be charged until after October 10 for both payments.

3-The same procedure will be used in 2024 for the dues increase caused by insurance in June 2024. The 2024 budget will assume a modest increase, not the 196% we saw this year with the market this volatile. We will wait until we get the actual bill about June 4, 2024, and do another special assessment to cover the increase for the back half of the year.

Do we have an alternative?
Not really.
1-We need $57,575 funded now, to stay on top of future increases. Our intention is to forecast a modest increase for Jul-Dec 2024 when we do the 2024 budget in October 2023. If we are short again, we will use the actual bills in June 2024 and fund the shortage thru another special assessment due July 1 and October 1.
2-We could defer the current increase to January 1, 2024 and spread it over the next 6 months by paying double, or over the next 12 months and letting it be an add on top of the July 2024 increase. And then how do you spread the July 2024 increase (over 6 months or 12 months)? This is a never ending escalation problem until the market stabilizes. That's why it's better to stay current with the insurance bills.
3-We can't pay this out of working capital, which is normally about $55K. We used $45K of that to pay immediate hurricane expenses at the end of 2022 so we need that type of ready cash. We will repay Working Capital later this year using the hurricane assessment income stream.
4-We have $90K in reserves but this needs to be "untouched" for the pool liner ($60K),

and pool/irrigation breakdowns. If we borrowed from reserves, how do we pay that back since we will have continuing insurance increases? And how do we handle pool/irrigation breakdowns which need to be fixed immediately, not several months from now. If you don't pay reserves back, the budget provides about $17K of additions each year so it will take more than 5 years to get back up to the “$85K plus” that has been the goal (and the goal is rising due to cost of pumps etc doubling in price over the last 18 months.) <u>This is a never ending cycle so it's better to stay current with insurance.</u>

Is there any way to avoid this increase?
1-Not if you own a condo in Florida.
2-FL statutes require that the Association insure the buildings for full value. (We are not in a high risk flood zone so a Master Flood Policy is not required.)
3-FL statutes require we keep the appraisal up to date, so it reflects the current cost to rebuild. (As of the 3/2/2023 the Sedgwick appraisal this is $26,431,954. It went up 14% this year,17% in 2022 and 3.5% in 2021. The **appraised value is posted on the JCCV website showing the cost to rebuild for each building** so you can calculate it for your condo and use to decide building coverage on your own policies.
4-In March, Brown & Brown sent our **Request For Quote to ALL carriers that write insurance in FL and have strong financials**. (or an A or better Demotech rating) so they are casting as wide a net as possible.
5-It is illegal in Florida to work with a second agent to try and get a better “deal”.
6- Any delay in this increase just "builds" into a bigger wave of increase later.
7-Citizens, which is the insurer of last resort, quoted $50K more than the $302,029 property insurance quote we are accepting.
8-Citizens won't even quote a policy unless your lowest quote on the commercial market is more than a 20% increase.
9-We can't borrow from reserves to pay this increase. (Insurance is an operating expense. Reserves are for fixed assets.)
10-We face similar issues in the foreseeable future as long as the insurance market is in such turmoil so delaying the impact on owners makes the problem worse

Judy Liston
Dir. Finance & Insurance
JCCV COA

<u>JCCV Insurance Special Assessment Diagram</u>

Policy Year Diagram of Insurance Special Assessment 6/04/2023

Total insurance renewal for 6/18/2023-6/18/2024 of $317,332 of which Property Insurance is $302,029.

Current premiums 2022-2023	$162,085	
Budgeted renewal for June 1	$210,710	($162,085 * 30% increase)
New premiums for 2023-2024	$317,332	

Shortage is New Premiums/month – Budgeted renewal/month

Monthly amt budgeted $210,710/12= $17,559
Monthly new amount $317,332/12= $26,444

Shortage per month $8885
Billing this July 1-Dec 31,2023 = $8885*6mos=53,310 * 1.08 insurance loan interest **=**
Shortage for July 1 – Dec 31 $57,575 including 8% financing fee
Special Assessment Jul 1, Oct 1 $57,575 / 72 owners/2 assessments= $399/quarter
Special Assessment due July 1 and October 1 = $399/quarter
NOTE: This does not recover the shortage for June of $8885 because the June dues were paid on April 1 as part of that quarter, so rather than make the assessment $67/quarter higher by spreading that shortage over the remaining 6 months of the calendar year, we will absorb it as a loss. The financials start June 1 (rather than July 1) at the new insurance rate because we get the new premiums about June 7 for the June 18, 2023 renewal. ($8885 for June *1.08 finance fee / 72 owners / 2 assessments = $67 to add to each assessment, July 1 and October 1 if we were to recover all 7 months of shortage).
Judy Liston, Dir Finance & Insurance, JCCV COA

Cross Checkes on Insurance S/A Calculation

Cross Checks on Insurance S/A Calculation 6/03/2023
This ties to the 2023 budget for insurance.
2022-2023 policy was $162,085 for (total) insurance
Therefore January 1, 2023-May 2023 was 162,085 * 5/12 **= $67,535**
We budgeted for a 30% increase in June 2023
162,085*1.3 = $210,710 annual cost for policy year beginning June 18, 2023
We budgeted this to start June 1, 2023 so 210,710 * 7/12 **= $122,914** insurance budgeted for June 1-December 31, 2023
Therefore the 2023 insurance budget is $67,535 + 122,914 = **$190,449 budget 2023**

The new insurance bill ties to what we budgeted for the last ½ of 2023 plus the shortage we will recover thru the special assessment. (Excludes finance fees 8%)
We budgeted $122,914 for insurance June 1- December 31, 2023. That is 7 months at $17,559 / month
The shortage is $8885/month +$17,559 base rate = $26,444 collected monthly Jul-Dec
$26,444 *6 months Jul-Dec = **$158,664 collected in the last ½ of 2023 excluding finance charges**
We can't start collecting the new rate on June 1 since that is collected in the April 1 quarter. We could prorate that between the 2 quarterly S/A's and that would add $62 to the qtrly S/A of $399. Let's just forget it. ($8885 monthly shortage / 2 payments Jul and Oct / 72 owners = $62 additional S/A)
We will let the $8885 monthly shortage for June (and its 8% financing fee) fall to the bottom line as an unbudgeted expense and start collecting the new rate on July 1 which starts a new quarter.
The 2023-2024 insurance total is $317,332 for Jun 18, 2023-Jun 18, 2024 so / 2**=**
$158,666 needs to be covered in July 1-December 31 (excluding finance charges)
Judy Liston, Dir Finance & Insurance,JCCV COA

Insurance Market Status

Excerpts From Bankrate.com written April 24, 2023 written by Cate Deventer "Can Lawmakers Save the Collapsing Florida Home Insurance Market?…."

Governor Ron DeSantis signed a second insurance reform bill into law on Dec 16, 2022. Combined with earlier legislation, these new regulations may stabilize the spasming home insurance market.

Florida accounts for only 9% of the country's home insurance claims but 79% of its home insurance lawsuits, many of them fraudulent.

Because of fraudulent lawsuits and the high overall claim risk in Florida, insurance companies have faced 2 consecutive years with net underwriting losses of over $1 billion.

The devastating damage from Hurricane IAN will likely put further strain on Florida insurers and could worsen the crisis.

The crisis in the Florida insurance Market

Florida has always been a complex home insurance market, but recent issues are pushing the state's market to the point of collapse. Since 2017, six property and casualty companies that offered homeowners insurance in Florida liquidated. Five more are in the liquidation process in 2022. Other insurance companies are voluntarily leaving the state. Even more are choosing to nonrenew swaths of home insurance policies, drastically tightening their policy eligibility requirements or request substantial rate increases.

For Florida homeowners, this is resulting in fewer home insurance companies and increased premiums. When a company goes insolvent, the Florida Insurance Guaranty Association (FIGA) takes on any claims that still need to be paid by that company.

According to Logan McFaddin, Vice President of State Government Relations at the American Property Casualty Insurance Association, "Florida's property insurance market is in crisis as insurers grapple with out-of-control litigation costs and billions in losses from recent natural disasters."

Why are home insurance companies leaving Florida?

Florida has always presented a risky market to home insurance companies due to the high threat of widespread weather-related damage, but the current crisis is caused by a number of factors reaching b**oiling point at the same time**. (Escalating: Litigation Costs, Reinsurance Rates, and Construction Labor & Materials costs.)

Insurance fraud in Florida

The biggest issue right now in Florida is home insurance fraud, driven by fraudulent roofing claims. Florida's Insurance Consumer Advocate (ICA) Tash Carter explains how the scams work:

1-First roofers canvas neighborhoods and offer inspections to unsuspecting homeowners. These contractors inevitably "find damage" on the roof and often promise a "free roof" to the homeowner, claiming they can have the home insurance deductible waived.

2-Homeowners are pressured to sign an assignment of benefits form, giving contractors the right to file an insurance claim on their behalf.

3-A claims adjuster from the insurance company inspects the alleged damage. The adjuster either finds no damage or far more minimal damage than the contractor found, and the claim payout is less than what the contractor demanded.

4-The contractor brings legal action against the insurance company, demanding a claim payout for the contractor's original quote.

Remember the homeowner signed the benefits of the policy to the contractor, so the contractor doesn't need the homeowner's permission to do this.

5-The insurance company now has a choice: it can pay the legal costs to fight the lawsuit or pay the costs to settle out of court. Either way, the insurance company loses money due to the legal action.

According to Mark Friedlander, Director of Corporate Communications at the Insurance Information Institute, "Florida property insurers are projected to post a cumulative underwriting loss of $1.7 billion for 2021" due to these runaway litigation costs. The governor's office reports that, for 2 consecutive years, net underwriting losses have exceeded $1 billion. It's no wonder that so many companies are going insolvent or leaving the state before they reach that point.

On top of that, Florida also previously had a "one-way attorney fee" system. This meant that, when a court ruled in favor of the plaintiff (in this case a home insurance policyholder or 3rd party contractor who filed the claim), the defendant (in this case the insurance company) was responsible for paying the plaintiff's attorney fees. So not only were insurers paying for fraudulent lawsuits, they were also paying for the fraudster's legal costs. Friedlander notes that insurance reform bill passed in December 2022 "addresses the 2 root causes of Florida's residential insurance crisis—litigation abuse and assignment of benefits (AOB) abuse…. eliminating both is necessary to slow down the mass volume of lawsuits being filed against Florida insurers." Going forward, assignment of benefits forms are banned for home insurance losses and Florida will no longer operate a one-way attorney fee system.

Storm Risk

Risk will always be a consideration for home insurance companies in Florida. The state's shape and geographic location mean that it could get hit from either side by a hurricane. Because the peninsula is so thin, even homes in the interior counties aren't entirely protected.

To make matters worse, fraudulent claims may be more common after severe storms. Hurricane Ian made landfall on September 28, 2022 as a powerful Category 4 storm, causing an estimated $84 billion in damage (quote 10/16/2022 SRQ Herald Trib). The damage and financial fallout could push the already teetering home insurance market into collapse due to increased home repair expenses, including the potential of fraudulent roof claims.

However, although the risk of hurricane damage complicates things, it isn't what's driving the market to the brink of collapse.

Update:December Special Session Yields Promising Reform Legislation

Additional legislation was signed into law on December 16, 2022. Senate Bill 2-A. The bill has numerous provisions but focuses on one-way attorney fees and the assignment of benefits scam. Friedlander told Bankrate:

Doing away with one-way attorney fees and assignment of benefit forms could potentially remove massive financial pressure from insurance companies and reduce the number of fraudulent lawsuits.

However, Friedlander notes that change won't happen overnight. "We expect home insurance rates in Florida to remain high in 2023 due to expenses associated with ongoing litigation, combined with soaring reinsurance rates and double-digit replacement cost increases driven by escalating prices of construction materials and labor."

Citizens

Citizens is the state run "insurer of last resort". They have their own underwriting guidelines so they may not be an option for all homeowners. Citizens policyholders must now accept private insurance quotes if they are no more than 20% higher than Citizens quotes. Additionally, Citizens policyholders will be required to carry flood insurance.

Judy Liston, Dir. Finance & Insurance, JCCV COA