How Hurricane Ida Will Affect Your Insurance Rates

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Experts say Ida will drive up rates for reinsurance, which is what insurance firms must buy to guarantee they can pay all claims after a disaster. That's the pipeline that Hurricane Ida's higher costs will travel to be passed on to Fla. insurance policyholders.

FORT LAUDERDALE, Fla. – Florida might have dodged a bullet from Hurricane Ida, but consumers in the Sunshine State ultimately won't be able to escape its financial wrath.

Insurance experts say Ida will drive up rates for reinsurance – which is insurance that insurance companies must buy to guarantee they can pay all claims after a disaster – and those insurance companies will pass those higher rates down to us.

Everyone is likely to feel the effects: Homeowners will see their insurance bills rise. Landlords will pass the increases down to tenants. Retail stores will pass them down to customers. Restaurants will charge more for meals.

"There's no doubt that reinsurance rates will be impacted by this storm," said Paul Handerhan, president of the consumer-focused Federal Association for Insurance Reform, which is based in Fort Lauderdale. Reinsurers "won't say, 'Because it hit Louisiana, we're going to give Florida a break.' These increases will obviously be passed onto consumers."

The powerful Category 4 storm, which created a wide swath of destruction from both winds and flooding as it bore through Louisiana and ultimately into the heavily populated Northeast, is estimated to become one of the costliest in U.S. history, with insured losses possibly reaching $40 billion, according to analysts at Goldman Sachs.

That would put the storm squarely in the top 10 of the United States' costliest storms, amidst such famous company as hurricanes Wilma in 2005, Irma in 2017, Sandy in 2012 and Andrew in 1992, though well below the most expensive – Katrina in 2005.

Ida showed up during what was already shaping up to be one of the costliest years of the past decade for natural disasters, with insured losses from all global weather events hitting a 10-year high of $42 billion over the first six months of 2021. Nearly three-quarters of those losses occurred in the United States and $15 billion stemmed from the polar vortex that plunged Texas into a deep freeze in February.

Tallies for the remainder of the year will include losses from the California wildfires, Ida and however many more tropical cyclones decide to come ashore before hurricane season ends on Nov. 30.

Florida insurance consumers already battered

And while Florida has been fortunate so far this year – fingers crossed, knock on wood – the state's property owners haven't felt so lucky when it's been time to renew their insurance policies.

Aggressive repair contractors, hungry attorneys and opportunistic public adjusters have been driving up insurance rates in recent years by filing excessive claims and lawsuits over non-weather-related losses. Over the past year, insurers have been raising rates as high as 40% while trying to cut future losses by cutting off new policies and declining to renew existing ones in high-risk regions as South Florida and the Orlando and Tampa areas.

Shunned property owners have been forced into state-owned Citizens Property Insurance Corp., the so-called insurer of last resort. That company expects to have more than 700,000 policies by the end of the year – up from 420,000 in 2019.

Meanwhile, Florida-based insurers have reported net losses over each of the past five years, making them more dependent upon reinsurance than if they had been raking in steady profits and building up reserves over that time.

Just like homeowners renew their insurance coverage each year at the latest rates, so too must insurance companies buy reinsurance every year. Ultimately, that's the pipeline that Ida's higher costs will travel to hit Florida insurance customers.

State insurance regulators require Florida-based insurance companies to base rate-hike requests on potential losses from future storms that they project could affect Florida. Catastrophe risk models they submit to back up their projections cannot factor in the frequency or severity of storms, such as Ida, that hit other states.

But large reinsurers, which are funded by the global capital markets, can set whatever price for their product that the market will bear. Competition keeps prices from spiraling out of control, but reinsurers are free to consider costs of previous storms along with projections for future storms.

They must spread their risks across regions larger than a single state, and Florida insurance regulators have no say over what reinsurers charge.

"If you are a reinsurer who writes [policies in] Florida, you must determine your appetite for Florida balanced with other parts of the world," said Kevin McCarty, former state insurance commissioner and founder of Tallahassee-based insurance consulting firm Celtic Global Consulting. "If you have a Florida loss, it's offset by [premiums] from around the world."

Conversely, "to offset [losses caused by Ida] outside of Florida, those costs will be passed onto Florida in 2022," he said.

Reinsurance good for market, bad for consumers

Reinsurance firms secure funding purchased by insurers each year by selling securities to institutional investors, such as capital funds.

Capital funds invest in reinsurance to diversify their portfolios. Essentially, they are betting that they'll pay out less than they'll take in during any given year. And for the most part, those bets pay off with higher rates of return, on average, than the funds can earn in the bond or equities markets, McCarty said.

In one sense, this is good for the economy. When storms drive rates higher, more investors will want to buy reinsurance-backed securities next year, guaranteeing that losses can be covered.

But what's good for global-scale investment funds isn't necessarily good for modest-sized Florida-based insurers or their policyholders.

Here, insurers already pay higher reinsurance costs because of high rates of contractor fraud, litigation and the state's natural vulnerability to hurricanes. That leaves companies weaker financially and more dependent on reinsurance, which eats as much as 50% of every dollar that homeowners spend on their wind storm policies.

With margins so thin. Florida-based companies can't afford not to pass along higher reinsurance costs, Handerhan said.

Several Florida-based companies that have expanded into nearby states in recent years – ironically to reduce their risks in Florida – are being hit hard by losses from Hurricane Ida.

FedNat, a publicly traded insurer based in Sunrise, expects to pay out $18.3 million in Ida-related losses before it can tap into $910 million in reinsurance coverage available to pay out Ida claims, according to the global risk capital-focused news website Artemis. All other publicly traded insurers based in Florida have expanded into Gulf region and could see similar losses.

Smaller privately owned carriers that write policies in the Gulf region will see worse effects from Ida because they have a smaller financial cushion.

Florida-based companies with heavy Ida losses could seek relief from their Florida customers indirectly, Handerhan said.

Companies that have been holding back for competitive reasons from raising rates as much as state regulators would allow might decide to take higher rate increases for their Florida customers, and sooner, Handerhan said. They could also drop policies in Florida, forcing customers to look for coverage at higher rates from other companies.

Mark Friedlander, director of corporate communications for the insurance industry-backed nonprofit Insurance Industry Institute, takes a more optimistic view of Ida's likely effects.

Florida-based carriers "have minimal exposure in other states," he said in an email, adding that the overall impact on Florida homeowner rates should be minimal and not as significant as ongoing "roof repair schemes and runaway litigation."

"Reinsurers consider Ida to be a manageable event," he said. "Typically, a single storm would only impact reinsurance rates if it significantly erodes the industry's capital. It is not expected that Ida will move reinsurance renewal rates for 2022."

Ida's flood losses won't trickle down

Flood losses from Ida, projected by catastrophe risk modeler CoreLogic to fall between $11 billion and $17 billion for both the Gulf and Northeast regions, aren't likely to result in higher flood insurance rates for Florida homeowners, McCarty said.

One reason is Florida policies already constitute about 35% of the National Flood Insurance Program. Another is the program is about $20.5 billion in debt and the Federal Emergency Management Agency is in the midst of rolling out a plan to more accurately match insurance rates with flood risks for individual properties – meaning most rates in Florida are already set to increase.

But Ida is likely to drive up rates for insurance purchased for large commercial properties, including apartment complexes and condominium structures. Many of those policies are written in the so-called surplus lines market, dominated by companies like Lloyds of London, because the insured structures are large and expensive with risks that are difficult to measure.

Evan Seacat, regional managing director for the real estate and insurance service firm Franklin Street, says clients who own 30,000 to 35,000 multifamily units in South Florida are nervous about Ida's potential to increase their insurance costs further, following two to three years of large rate increases.

And while his company's bargaining power can help lessen the blow for its clients, ultimately, he said, Ida "will affect us here in South Florida for the next two or three years."