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Hurricanes, water losses, AOB prompt reinsurance changes

MAITLAND, FL – Citizens Property Insurance Corporation will seek approximately $200 million in traditional reinsurance coverage for the 2019 hurricane season to protect surplus exposed to storm risk in areas located away from the coast. This follows mounting losses from hurricanes, nonweather water-loss claims, litigation and assignment of benefits abuse.

For the first time since 2005, Citizens will purchase traditional reinsurance for its Personal Lines Account (PLA), which is comprised of 301,000 residential policies, most of which are not located along the coast. The reinsurance coverage will reduce Citizens' PLA surplus exposure from 62 percent to 52 percent in the event of a 1-100 year storm.

"After significant losses in the Personal Lines Account from Hurricanes Irma and Michael, along with nonweather losses and assignment of benefits, the Personal Lines Account surplus has decreased significantly and is now exposing much more of its surplus for a 1-100 year storm," Jennifer Montero, Citizens Chief Financial Officer, told its Board of Governors on Wednesday.

Since 2015, Citizens has incurred net operating losses in the PLA. Along with claims from Hurricanes Irma and Michael, these net operating losses are driven by nonweather-related water claims, assignment of benefits abuse and increased litigation. For 2018, the PLA experienced a net loss of $135.9 million.

Traditional reinsurance coverage for the Personal Lines Account will be part of a $1.6 billion risk transfer package being assembled for the 2019 hurricane season, which begins June 1. Citizens plans to have $1.4 billion in coverage established for the Coastal Account. This includes $880 million in traditional reinsurance and catastrophe bonds purchased in 2017 and 2018, which remain in place for the 2019 season.

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