INSURANCE INSIGHT

Irma sends Florida's Citizens to largest Q3 underwriting loss in 13 years

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By Tim Zawacki

Citizens Property Insurance Corp. generated a net underwriting loss of more than $1.11 billion in the third quarter, according to an S&P Global Market Intelligence review of data contained in statutory filings posted on the Florida state-run residential and commercial property insurer's website, as claims arising from Hurricane Irma hit its income statement.

Not since 2004, when hurricanes Charley, Frances, Ivan and Jeanne made landfall in August and September, had Citizens posted such a large third-quarter net underwriting loss. Also, due to its considerable smaller current premium base relative to 13 years ago, its combined ratio for the quarter was markedly higher.

Company officials in late September released what they characterized as an initial estimate of Irma-related insured losses of approximately $1.23 billion.

Citizens reported a net underwriting loss of $1.04 billion for the first nine months of the year, as compared with a net underwriting loss of $11 million in the year-earlier period. Its net underwriting loss for the third quarter of 2016 was $112.2 million as Hurricane Hermine ended an 11-year drought of landfall-making hurricanes in the state of Florida.

Hurricane Matthew, which raked the Florida coastline early in the fourth quarter of 2016, never technically made landfall in the state.

In 2004 and 2005, S&P Global Market Intelligence calculates that Citizens generated net underwriting losses of $1.43 billion and $566.2 million, respectively.

Underwriting profits are atypical for Citizens in third quarters regardless of whether or not Florida gets hit by a hurricane. The company last generated a net underwriting gain in a third quarter in 2010, and it has only done so four times in the past 14 years. But the average amount of net underwriting losses Citizens generated during the third quarters of 2011 through 2016 was only approximately $74 million.

Based on the premiums and loss data contained in Citizens' June 30 and Sept. 30 statutory filings, S&P Global Market Intelligence calculates that Citizens generated combined ratios of 1,241.1% and 317.9% for the third quarter and the first nine months of 2017, respectively. Those figures mark increases from 204.7% and 113.9% in the respective year-earlier periods.

When Citizens produced a $1.43 billion net underwriting loss in the third quarter of 2004, its combined ratio for that period was 753.7%. The lower amount is a result of the falloff in Citizens' premium volume, which was more than 2x the third quarter of 2017's level in the same period 13 years prior.

The solvency with which Citizens has emerged from the loss-riddled third quarter stands in even starker contrast to both 2004 and 2005.

Though the large net underwriting loss sent Citizens to a net loss of $1.06 billion for the third quarter of 2017, it still ended the period with $6.46 billion in policyholders' surplus. After it suffered from net losses of $1.43 billion and $54.6 million in the third quarters of 2004 and 2005, its surplus ended Sept. 30 of the respective years at $366.9 million and a deficit of $206.4 million.

Hurricanes have not represented the lone challenge facing Citizens in recent quarters. The company's financial results showed deterioration from year-earlier periods in both the first quarter and first half of 2017 in a development that executives blamed, in part, on the litigation of non-weather-related water loss claims with an assignment of benefits.

An analysis of data reported on Part 3 of Citizens' two most recent quarterly statements suggests that the company recorded $21.5 million in unfavorable development of loss and loss-adjustment-expense reserves for prior accident years during the third quarter.