

South Florida Regional Planning Council

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Economic Analysis Service | Policy Brief



ECONOMIC IMPACTS OF THE NATURAL DISASTER RISK REINSURANCE PROGRAM (H.R.3525)

MARCH 28, 2024

Summary

Driven by escalating reinsurance costs, homeowner property insurance premiums have grown dramatically in Florida. Facing increasing costs from both insurance and home prices in Florida, many residents are considering leaving the state. The cost of reinsurance is a national concern, squeezing family incomes throughout the United States. Reinsurance is projected to cost Floridians \$1.1 billion in Disposable Personal Income and due to the resulting reduced personal spending, \$717.6 million in Gross Domestic Product over the next five years. The projected cost to the U.S. economy is projected at \$6.5 billion in Disposable Personal Income and \$4.2 billion in Gross Domestic Product.

A National Reinsurance Program, as proposed by Congressman Jared Moskowitz, would cut annual premium growth in Florida by 25 percent and 12 percent in the U.S. The national program would provide a last-resort reinsurance option for the insurance industry, cut premium costs, save Florida \$838.2 million in Disposable Personal Income and \$1.5 billion in Gross Domestic Product while saving the U.S. \$4 billion in Disposable Personal Income and \$8.1 billion in Gross Domestic Product over the next five years. For the average insured Florida homeowner paying \$6,000 per year, the proposed reinsurance program would save the homeowner \$1,500 in the first year with increased savings in subsequent years.

Background

Property insurance covers myriad risks such as tornados, earthquakes, and other natural disasters. In Florida, the predominant risk is windstorm damage from hurricanes and tropical storms. Between May 2021 and May 2023, average home insurance premium renewals rose 68 percent in Florida; the fastest increase in the country and nearly double the national rate of 35 percent over the same period.¹ Average household insurance premiums now comprise about \$6,000 or nine percent of Florida's median household income of \$67,917.² Florida's premiums are about four times the national average.³ In some coastal areas of the state, the average premium is considerably higher.

Takeaways

A National Reinsurance Program will

- Cut annual homeowner premium growth by 25 percent in Florida;
- Save the average homeowner paying \$6,000 a year in homeowner insurance, \$1,500 in the first year with increased savings in subsequent years.
- Save Americans \$4 billion in disposable personal income over the next five years.

Rising housing and homeowner insurance costs affect the national and state economies by constraining household spending on other non-housing goods, services, and personal savings thereby reducing the Gross Domestic Product. These rising costs force would-be homeowners to rent, precluding them from building equity in a home. Faced with rising costs, homeowners experience higher rates of overcrowding, displacement, economic out-migration, and homelessness. By adding costs to homeownership, insurance costs are also slowing economic mobility in Florida.

With \$2.9 trillion in property exposure, Florida is the most at-risk state for catastrophic property damage from storms. Broward, Miami-

¹ [Home Insurance Pricing Report \(2023\) – Policygenius](#)

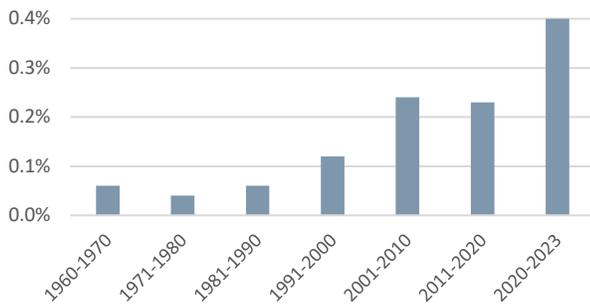
² US Census Bureau QuickFacts, Five-Year Estimates, 2022.

³ [Florida's homeowner insurance rates are four times the national average. That's not getting better anytime soon | CNN Business](#)

Dade, Monroe, and Palm Beach counties in Southeast Florida represents 22 percent of statewide total damage or an exposure of \$636 billion in both residential and commercial uses.⁴

Expected annual economic losses to the U.S. residential sector from flood damage is \$20 billion and \$14 billion from residential wind-damage. According to the Congressional Budget Office, the expected annual cost of hurricane winds and storm related flooding to the federal government is \$17 billion.⁵ As shown in Figure 1, the economic damage from natural disasters has grown in every decade since the 1960s.

Figure 1: Annual Natural Disaster Economic Impacts, by Decade 1960-2023 (As Percent of U.S. GDP)



Source: Our World in Data based on EM-DAT, CRED / UCLouvain, Brussels, Belgium – www.emdat.be (D. Guha-Sapir), 2024.

In recent years, Florida’s insurance market has been continuously shrinking as insurance companies leave Florida for less risky areas of the country. This exodus has left hundreds of thousands of Floridians with no alternative but to buy insurance from Citizens Property Insurance Company; the State of Florida’s organized insurer of last resort.

Factors Driving Premium Growth

While average insurance premiums vary widely by state, localities, housing types, and conditions,

insurance rates are rising throughout the United States. Insurance cost drivers include:

- Inflation: The dwelling coverage limit is often based on rebuilding costs influenced by global supply chain problems.
 - Localized demand for construction and resulting labor shortages exert surge pricing on reconstruction costs in devastated communities.
 - Indices of construction costs indicate that producer prices have leveled off since 2022, indicating that inflation may not be as large a component of recent premium gains as it was during the Covid pandemic.⁶
- Increased Development in Coastal Areas: The American South has attracted millions of people domestically and internationally. This has increased demand for development in areas that are more prone to natural disasters. Overall, there has been a significant increase in the total value of real estate exposed to storm surge and wind.
- Climate change and meteorological cycles have brought greater storm intensity⁷
- In previous years, litigation comprised a large share of insurance cost drivers. However, 627.7152, *Florida Statutes*, prohibits assigning any post-loss benefits under any residential property or any commercial property insurance policies issued after January 1, 2023. This means that property owners with policies issued after this date are no longer allowed to assign their insurance benefits to third parties.⁸ Some litigation from policies prior to this date is still pending resolution.
- Reinsurance: However, notwithstanding the aforementioned insurance cost drivers,

⁴ [2022-fhcf-annual-report.pdf \(sbafla.com\)](#)

⁵ CBO, 2019. Expected Costs of Damage from Hurricane Winds and Storm-Related Flooding

⁶ U.S. Bureau of Labor Statistics, Producer Price Index by Commodity: Inputs to Industries: Net Inputs to Single Family Residential Construction, Goods [WPUIP2311101], retrieved from FRED, Federal

Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/WPUIP2311101>, March 4, 2024.

⁷ [Why Florida insurance rates are going up | Insurance Business America \(insurancebusinessmag.com\)](#)

⁸ [Policyholders Are No Longer Permitted To Assign Their Insurance Benefits in Florida | Jimerson Birr \(jimersonfirm.com\)](#)

reinsurance stands out as the predominant cost driver. **Reinsurance represents approximately 50% of the average cost of a policy and is comprised of the “risk transfer” that insurers pay to reinsurance companies to hedge against future losses.**⁹

What is Reinsurance and How Does it Work?

Reinsurance is insurance for insurance companies, supporting insurance companies with solvency and capital efficiency of the transfer of and diversification of risk. A customer’s insurer, also known as a “ceding insurer”, transfers risk to an assuming reinsurer who then assumes all or part of the risk of one or more insurance policies issued by the cedent.

Reinsurance plays a key role in smoothing the insurance business cycle. In a “hard” insurance market, the supply of coverage is limited, premiums increase, and there is restricted underwriting. In a soft market, there are more potential sellers than buyers. Coverage supply is plentiful and prices decline. Hard markets are usually triggered by capital depletions resulting from catastrophic losses that cause insurers to reevaluate their pricing practices and reassess their exposure management.

Following a large loss, it is difficult for insurers to raise capital at a relatively low cost. Insurers must choose between reducing coverage supply, increasing insolvency risk, and purchasing more reinsurance.¹⁰ Generally, there are several frequently cited reasons for insurers to purchase reinsurance:

- **Maintaining Existing Policies and Underwriting:** Expands the insurance company’s policy writing capacity and stabilizes underwriting results.
- **Stabilizing Firm Cash Flow:** Statutory accounting rules prohibit the capitalization

of acquisition expenses. Although the revenue from the insurance policy is earned over the policy term, the commissions paid to agents for new or renewed insurance policies must be recognized immediately. As this could put a financial strain on insurance companies, the commission allowances permitted under specific types of reinsurance transactions may assist in alleviating the strain on the company’s surplus.

- **Providing Catastrophe Protection:** Insurance companies may provide insurance for distinct types of perils in which one act may significantly impact numerous insurers for extensive amounts. It is vital for insurance companies to remain solvent by minimizing the budgetary impact of a single catastrophic loss occurrence.¹¹

Why is Market-Provided Reinsurance a Problem?

While reinsurance helps to balance the burden of insurance risks, the reinsurance industry is unregulated and not required to charge actuarially sound rates. The reinsurers alone decide on the cost of reinsurance.

Even as rising costs of insuring disasters drove increasing reinsurance costs in recent years, the largest reinsurers posted record profits in 2023. For example, Swiss RE filed record profit growth of 580 percent in 2023¹² and Munich RE posted profits of \$5 billion in 2023, and a return on equity of 15.7 percent and a solvency ratio of 267 percent.¹³ These are exceptional gains at the expense of ratepayers even in a hard market.

In an examination of the catastrophe reinsurance market, a researcher found that insurers pay several

⁹ Sam Sachs. February 17, 2023. [Florida Property Reinsurance Rates Expected to Jump 40-50% in June](#). WFLA.com; and ABC Dennis Insurance. January 7, 2021. [Home Insurance Rates Increasing Because of Reinsurance](#).

¹⁰ Cummins. 2021.

¹¹ [U.S. Reinsurance Collateral White Paper](#). March 2006. National Association of Insurance Commissioners.

¹² [Swiss Re 2023 net profit surges, in line with expectations \(msn.com\)](#)

¹³ [Munich Re profits exceed target for third year in a row | Insurance Business America \(insurancebusinessmag.com\)](#). Article states 4.6 billion Euro, converted to US dollars, March 12, 2024.

times the actuarial price of the risk transferred.¹⁴ Moreover, the high price of reinsurance relative to expected losses is related to the combination of many factors affecting the reinsurance market equilibrium. The shortage of capital in reinsurance and the resulting capacity shortfall drive-up the price of reinsurance, especially following large losses. Moreover, reinsurers' market power has intensified over time with the increase in the capital and market shares of large reinsurers.¹⁵

Government Interventions in Insurance Market Failures

While thirty-two states have created residual market facilities to sell property insurance to buyers, often at a subsidized rate, the states are limited in the forms and extent of taxes and other revenue they can deploy to provide insurance coverage. In several cases, public residual market insurers face mounting difficulties in providing adequate services, especially in states where insurers have been limiting their exposure. For example, a Louisiana Legislative Auditor report noted that Louisiana Citizens, the state's residual market plan, may not have adequate reinsurance to pay claims if a major hurricane occurs, due to the higher number of policies and problems in the reinsurance market.¹⁶ Similar challenges are emerging in residual market plans in other catastrophe-exposed states.¹⁷

Several researchers have pointed out various rationales for government intervention in the high-risk end of the insurance market:

- The government's insurance commitment may extend over time, allowing the

government to recover losses through future premiums or revenues.

- The government may have a unique capacity through the police power to enforce mitigation measures to complement post-event recovery finance.
- The government may provide backup coverage financed through the general fund or other revenues, or as a reinsurer of last resort, adding a final backstop to a multi-layer insurance program and protecting US ratepayers from having to pay for disasters in other countries.¹⁸

Florida's Public Insurance Programs

The State of Florida maintains several programs to supplement the state's weak insurance market. Those programs include Florida Citizens Property Insurance Company, a public insurer of last resort. With many insurers pulling out of Florida, Citizens grew from 486,773 policies in July 2020 to 1.3 million at the end of June 2023, with an insured value approaching a record value of \$562 billion.¹⁹

The Florida Hurricane Catastrophe Fund (FHCF) is a tax-exempt state trust fund under the control of the State Board of Administration (SBA) that provides reimbursement to residential property insurers for a portion of their Florida catastrophic hurricane losses. In the aftermath of Hurricane Andrew, which struck Florida in August 1992 and more than \$15 billion in insured losses and at least 11 insurer insolvencies, the Florida Legislature recognized that an unstable

¹⁴ Froot, K., 2001. "The market for catastrophe risk: A clinical examination." *Journal of Financial Economics* 60, 529-571. The practice is both current and is widely accepted for exceptional risks. See also International Association of Actuaries, *IAA Risk Book Reinsurance*, May 2023.

¹⁵ Cummins, J. David and Dionne, Georges and Gagné, Robert and Nouira, Abdelhakim, "The Costs and Benefits of Reinsurance" (February 10, 2021). *Geneva Papers on Risk and Insurance – Issues and Practice* 46, 177-199, mars 2021, Available at ssrn.com/abstract=1142954

¹⁶ [Financial Condition of the Residential Property Insurance Market](#). October 13, 2022. Louisiana Department of Insurance.

¹⁷ Testimony of the American Property Casualty Insurance Association (APCIA) House Financial Services Committee. November 2, 2023. Factors Influencing the High Cost of Insurance for Consumers.

¹⁸ Litan, Robert E. Brookings Institution, Policy Brief #150: [Preparing for Future "Katrina's" 6-7](#) (2006); and Howard Kunreuther, Has the Time Come for Comprehensive Natural Disaster Insurance? In *On Risk and Disaster: Lessons from Hurricane Katrina* 175, 196 (Ronald Daniels et al, editors., 2006); Howard Kunreuther, Mark Pauly, "Rules Rather than Discretion: Lessons from Hurricane Katrina," 33 *Journal of Risk and Uncertainty* 101,109-13(2006).

¹⁹ www.citizensfla.com/documents/20702/93064/20230630+Business+Overview.pdf/115af816-1ba7-a5e4-acda-9eaa0895449?t=1694458730480.

market for property insurance threatened the state's economy.

Participation in the FHCF is mandatory for all residential property insurance companies doing business in Florida. Each company is required to enter into a reimbursement contract with the FHCF. The coverage provided by the FHCF is like private reinsurance but at a lower cost than private market prices. In general, the FHCF covers a percentage of the company's insurance losses in excess of their "retention" (similar to a deductible), up to a maximum payout.

FHCF charges each insurer an actuarially determined premium for the coverage provided. When the cash balance of the fund is not sufficient to meet its obligations, the FHCF can rely on the proceeds of revenue bonds backed by assessments on most types of Florida property and casualty insurance policies.

By statute, the FHCF's maximum potential obligation is capped at \$17 billion for a single season. Reimbursement premiums paid by participating insurers are the primary source of funding to cover the FHCF's reimbursement obligations. For the 2022-2023 contract year, reimbursement premiums were \$1.4 billion. As of the end of 2022, the FHCF had a fund balance of \$2.3 billion after Hurricane Ian's losses.²⁰

Reinsurance to Assist Policyholders (RAP)

The Reinsurance to Assist Policyholders program (RAP), created by the Florida Legislature and signed into law on May 26, 2022, established in Section 215.5551, Florida Statutes, is also administered by the State Board of Administration (SBA). The RAP program provides a non-recurring total of \$2 billion in coverage for a portion of a RAP insurer's hurricane losses.

All insurers participating in the Florida Hurricane Catastrophe Fund (FHCF) are required to participate in the RAP Program. RAP reimburses 90 percent of an insurer's covered losses and 10 percent of its loss adjustment expenses up to the limit of coverage for the two hurricanes causing the largest losses for an insurer during the contract year. The RAP fund provides a \$2 billion reimbursement layer of reinsurance for hurricane losses, an amount that is significantly lower than the \$8.5 billion mandatory layer of the FHCF.

The Need for a National Reinsurance Program

Even with state programs, premiums continue to rise, especially in Florida. If mounting premiums continue to discourage economic migration to Florida, the state's economy will suffer and current residents will find their disposable income even more constrained. Moreover, reinsurers spread their risk across the world, making ratepayers in the U.S. pay for the covered insurance of earthquakes in Japan, wildfires in Greece, and volcano disasters.²¹

A national reinsurance program offers scalability in reinsurance, deficit spending, and monetary policy tools that states do not have. As such, a national reinsurance program can support post-event risk pooling at a national level. A national reinsurance program would focus on risks within the U.S. and protect ratepayers from the cost of risks emanating from other parts of the world.

Reinsurance Structure

Currently, Florida pre-event funds catastrophe insurance with assessment capability. The pre-event funding is through premiums; assessment is post-event funding. However, the steadily increasing cost of reinsurance highlights the importance of post-event funding. Expanding post-event funding means that Florida insurers would still be liable for insured losses over a fifty-year storm. With national reinsurance, post-event funding for low-likelihood

²⁰ <https://fhcf.sbafla.com/media/uvmnfyka/2022-fhcf-annual-report.pdf>

²¹ [Swiss Re estimated insured losses from single quake in Japan of \\$130-150bn \(beinsure.com\)](https://www.beinsure.com/news/swiss-re-estimated-insured-losses-from-single-quake-in-japan-of-130-150bn)

events will result in a smaller surcharge than homeowners are currently paying each year for pre-event funding, if the low likelihood event even occurs. It is more likely that there will be lower rates than insurers are currently paying, with no surcharge likely at all.

With insurers facing lower firm level risk exposure due to a national pool, insurers in a competitive market are likely to reduce homeowner premiums. In Florida, insurers are required to charge actuarially sound rates, although reinsurance is an automatic pass through. Therefore, if reinsurance rates go down, insurers are required to reduce their rates, all other things being equal. As the ultimate backstop to natural disaster finance, insurers will still work within a multi-layered system of insurers, the state programs, and even some reinsurers with the most catastrophic costs being covered by the U.S. government.

Post-disaster programs financed with Treasury Bills may also yield benefits for insurers as rates rise with increasing bond portfolio gains.²² Moreover, an effective national disaster insurance plan might encourage investments in pre-disaster mitigation measures. If homeowners are aware that there is a comprehensive insurance plan in place, they may be more inclined to implement risk reduction strategies. This could, in the long run, reduce the overall risk profile and associated costs for homeowners.

HR 3525: Natural Disaster Reinsurance Program Act

Congressman Jared Moskowitz (FL-23) has filed House Bill (HR 3525) to create a national disaster reinsurance program. Under this program, Americans will pay less in insurance rates because the legislation guarantees that the federal

government will issue post-event bonds to insurance companies, so they are no longer at “risk of ruin.”

The bonds would fund the difference between the cap set on reinsurance requirements and the sum of homeowner damages caused by the event. In essence, the Federal government will help guarantee part of the insurance cost for homeowners when disaster strikes.

Highlights of the program created by Congressman Moskowitz’s bill include:

- It doesn’t cost the Federal Government anything other than administration costs.
- It covers a broad range of natural disasters – severe storms, tropical storms, hurricanes, earthquakes, tsunamis, fires, tornados, and hail.
- States can opt in – the program is voluntary and set up by filing a state plan with the Federal Insurance Office.
- The threshold to trigger the program is set high enough to only apply to truly exceptional natural disasters, not for daily claims.
- It will protect admitted insurers from “Risk of Ruin,” reduce reinsurance costs (about half of premium costs) and allow insurers to insure for the most foreseeable disasters while having the Federal backstop for truly exceptional disasters.
- Thresholds for triggering the program would be based on the lesser of two times direct premiums written, or a 50-year event²³.

Economic Analysis

The SFRPC conducted an analysis of two scenarios, one in which reinsurance costs continue to rise in Florida and throughout the U.S.; and one in which the proposed National Reinsurance Program

²² [Rising Interest Rates Help Insurers, but Market Volatility Poses Risk to Some | Office of Financial Research](#)

²³ Direct Written Premiums refers to the total amount of premiums an insurance company receives for its customers for policies it has

written during a specific period. DPW is a measure of a company’s size and an indicator of financial performance.
<https://fastercapital.com/content/Cracking-the-Code--Demystifying-Direct-Premiums-Written.html#What-are-Direct-Premiums-Written->

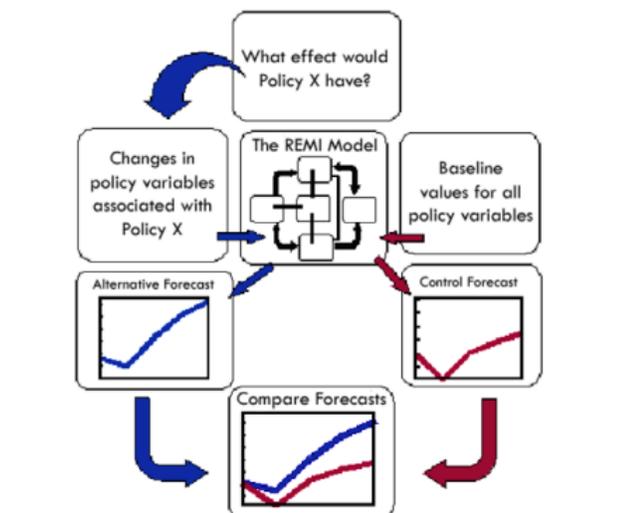
produces reduced residential insurance premiums. The SFRPC used REMI PI+, an economic simulation model to run the analysis.

REMI PI+

REMI PI+, which was developed by Regional Economic Models, Inc., is a dynamic and multiregional simulation software package that estimates the economic, population, and labor market impacts of specific economic changes or “shocks” to a baseline forecast. PI+’s analytical framework incorporates input-output relationships (supply chains), general equilibrium effects, interstate migration, economic geography, and econometrics.

The South Florida Regional Planning Council maintains the REMI PI+ model for the seven counties of Southeast Florida (Broward, Indian River, Martin, Miami-Dade, Monroe, Palm Beach, and St Lucie) and a single “Rest of Florida” region at a 70-industry sector level of detail with a baseline forecast that extends to 2060. The SFRPC also maintains a national-level model so that the countrywide aspects of a national policy can be assessed.

Figure 2: REMI PI+ Modeling Process



Questions and Analysis

In this analysis, the SFRPC addresses two questions. These are:

- What are the economic impacts to Florida and the U.S. from escalating reinsurance costs?
- What are the economic impacts of a national reinsurance program on the Florida and U.S. economies due to declining homeowner premium growth rates?

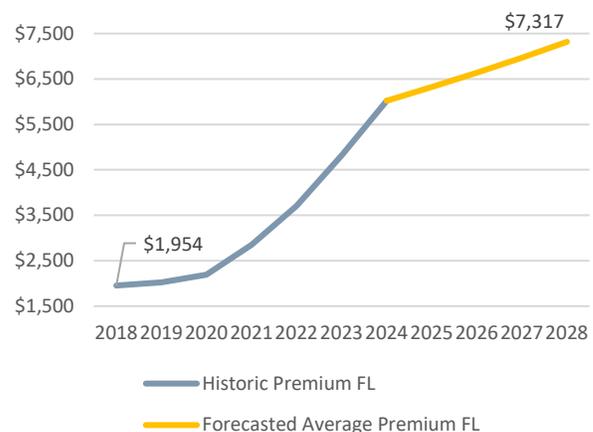
The SFRPC generated two related scenarios to estimate the economic impacts of those two questions. These scenarios are:

Escalating Reinsurance Costs Scenario

The SFRPC modeled increases to average homeowner insurance through a regression procedure that anticipated higher insurance costs due to increasing reinsurance costs. The procedure used historical Florida and U.S. annual premium growth rates since 2018 and projected forward to 2028.

Consequently, the average annual premium growth rate is forecasted to be 5 percent for the United States, and 10 percent for Florida. Figure 4 plots the historic and forecasted average premiums for Florida, and Figure 5 plots the historic and forecasted average premiums for the U.S.

Figure 3: Historic and Forecasted Florida Premiums



Source: [Insurance Research Council](#) and SFRPC staff analysis. 2024.

Results detailing the economic impacts of growing reinsurance costs on the Florida economy are shown in Table 1.

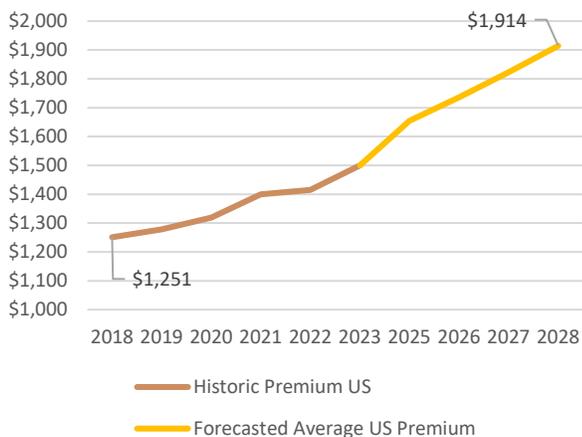
Table 1. Florida Economic Impacts from Growing Reinsurance Costs on Homeowners’ Insurance

CATEGORY 2024-2028	ANNUAL AVERAGE	5 YEAR SUM
Job-Years	-1,191	-5,955
Labor Force	-971	-4,857
Gross Domestic Product (GDP) Millions (2023 fixed \$)	-\$143.5	-\$717.6
Personal Income (GDP) Millions (2023 fixed \$)	-\$258.6	-\$1,293.1
Disposable Personal Income (GDP) Millions (2023 fixed \$)	-\$224.6	-\$1,123.2

Source: South Florida Regional Planning Council REMI PI+, 2024

While U.S. premium growth rates are lower than Florida average premiums, at 5 percent a year, premiums will continue to raise homeowner costs, as shown in Figure 4.

Figure 4: Historic and Forecasted U.S. Premiums



Sources: [Insurance Research Council](#) and SFRPC staff analysis. 2024.

Results detailing the economic impacts of growing reinsurance costs on the U.S. economy are shown in Table 2.

Table 2. U.S. Economic Impacts from Growing Reinsurance Costs

CATEGORY 2024-2028	ANNUAL AVERAGE	5 YEAR SUM
Job-Years	-5,336	-26,680
Labor Force	0	0
Gross Domestic Product (GDP) Millions (2023 fixed \$)	-\$842.1	-\$4,210.7
Personal Income (GDP) Millions (2023 fixed \$)	-\$1,527.8	-\$7,639.1
Disposable Personal Income (GDP) Millions (2023 fixed \$)	-\$1,306.8	-\$6,534.2

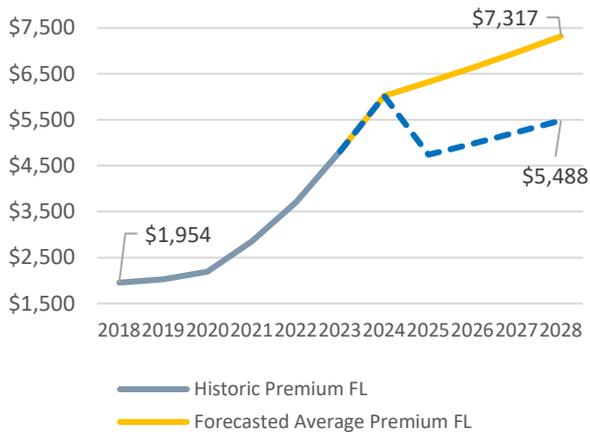
Source: South Florida Regional Planning Council REMI PI+, 2024

As Table 2 shows, U.S. economic impacts from growing reinsurance costs are significant, even though those costs are proportionately lower than Florida’s costs. This is because Florida has more exposure than the U.S. average and because the U.S. insurance profile is anchored by many states that are low risk for catastrophes.

National Reinsurance Scenario

In the National Reinsurance rate scenario, premiums are cut by a 25 percent discount to illustrate the potential economic impacts of a national reinsurance program. Figure 5 depicts the trends of historic, forecasted, and the hypothetical impact of a “reinsurance discount” through 2028.

Figure 5: Historic, Forecasted, and National Reinsurance Discount impacts on Average Premiums Through 2028 in Florida



Sources: [Insurance Research Council](#); South Florida Regional Planning Council staff analysis, 2024.

Results detailing the economic impacts of growing reinsurance costs on the Florida economy are shown in Table 3.

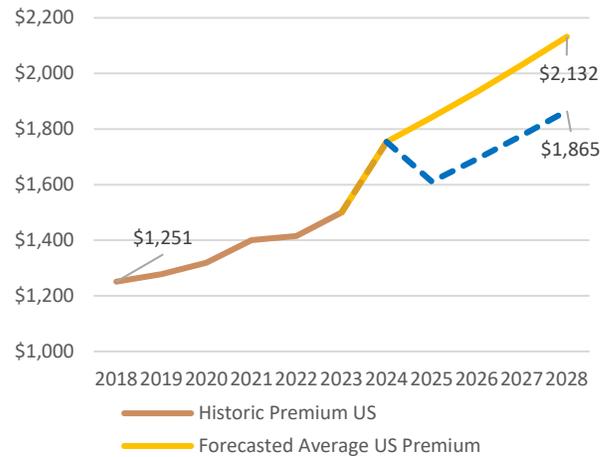
Table 3. Florida Savings from a National Reinsurance Program

CATEGORY 2024-2028	ANNUAL AVERAGE	5 YEAR SUM
Job-Years	2,414	12,068
Labor Force	1,743	8,714
Gross Domestic Product (GDP) Millions (2023 fixed \$)	\$295.6	\$1,477.8
Personal Income (GDP) Millions (2023 fixed \$)	\$196.4	\$982.0
Disposable Personal Income (GDP) Millions (2023 fixed \$)	\$167.6	\$838.2

Source: South Florida Regional Planning Council REMI PI+, 2024

Figure 6 depicts the trends of historic, forecasted, and the hypothetical impact of a “reinsurance discount” for premiums in the U.S., through 2028.

Figure 6: Historic, Forecasted, and National Reinsurance Discount impacts on Average Premiums Through 2028 in the U.S.



Sources: [Insurance Research Council](#); South Florida Regional Planning Council staff analysis, 2024.

The SFRPC ran a simulation for reinsurance discount impacts on the U.S. economy. Results detailing the economic impacts of reducing reinsurance costs on the U.S. economy through 2028 are shown in Table 4.

Table 4. U.S. Savings from a National Reinsurance Program

CATEGORY 2024-2028	ANNUAL AVERAGE	5 YEAR SUM
Job-Years	10,149	50,745
Labor Force	0	0
Gross Domestic Product (GDP) Millions (2023 fixed \$)	\$1,624.4	\$8,121.9
Personal Income (GDP) Millions (2023 fixed \$)	\$967.1	\$4,835.3
Disposable Personal Income (GDP) Millions (2023 fixed \$)	\$807.8	\$4,038.8

Source: South Florida Regional Planning Council REMI PI+, 2024

Discussion

The cost of reinsurance is a national concern, squeezing family incomes throughout the United States. Reinsurance is projected to cost Floridians \$1.1 billion in Disposable Personal Income and due to the resulting reduced personal spending, \$717.6 million in Gross

Domestic Product over the next five years. The projected cost to the U.S. economy is projected at \$6.5 billion in Disposable Personal Income and \$4.2 billion in Gross Domestic Product.

A National Reinsurance Program, as proposed by Congressman Jared Moskowitz, would cut annual premium growth in Florida by 25 percent and 12 percent in the U.S. The national program would provide a last-resort reinsurance option for the insurance industry, cut premium costs, save Florida \$838.2 million in Disposable Personal Income and \$1.5 billion in Gross Domestic Product while saving the U.S. \$4 billion in Disposable Personal Income and \$8.1 billion in Gross Domestic Product over the next five years. For the average insured Florida homeowner paying \$6,000 per year, the proposed reinsurance program would save the homeowner \$1,500 in the first year with increased savings in subsequent years.

- A National Reinsurance Program will:
- Cut annual homeowner premium growth by 25 percent in Florida.
 - Save the average homeowner paying \$6,000 a year in homeowner insurance, \$1,500 in the first year with increased savings in subsequent years.
 - Save Americans \$4 billion in disposable personal income over the next five years.

Assumptions and Methodology

Home insurance spending is a lump category of consumer spending in the PI+ model for non-vehicle, non-health care insurance. With the catch-all net household insurance variable the REMI model calculates where consumers would otherwise put their money (household repairs, maintenance, consumer goods) without the reinsurance mark-up on their premium. As more premium dollars are recirculated from insurer reserves into investment

and consumer spending due to the no-cost national reinsurance program, jobs, Gross Domestic Product, and disposable income increase.

The SFRPC derived the 25 percent reinsurance discount estimate from an analysis of reinsurance spending in Florida and output from a Florida Office of Insurance Regulation required Catastrophe Stress Test. The test is required of insurers to demonstrate their surplus position in the event of catastrophe by modeling the impacts to insured damages in fifty-year, one hundred and thirty-year and five hundred-year storms, using historical data updated to 2023 insured losses and 2023 dollars.²⁴

For the United States, the SFRPC estimated that the National Reinsurance Program would reduce homeowner premium growth by 12.5 percent each year to 2028. The state’s current coverage capacity, including current reinsurance coverage, is sufficient to cover the insured costs of a 130-year storm, the required ratings company coverage.

As an example of the potential range of damage, the state Financial Services Commission calculated impacts to the FHCF from various events, for all impacts, from various return periods, to compare to the net probable maximum loss to the FHCF and to a projected industry retention of \$9.9 billion dollars in 2024.

²⁴ [CatastropheStressTestFAQs.pdf](#), Florida Office of Insurance Regulation. Accessed March 7, 2024.

Table 5. Example Gross Probable Loss from Storms by Return Period

RETURN PERIOD (YEARS)	GROSS PROBABLE LOSS (2023 \$BILLIONS)
5	\$10.4
10	\$26.8
20	\$41.7
50	\$62.6
100	\$76.0
130	\$82.2*
250	\$93.9

Source: [Florida Hurricane Catastrophe Fund](#), February 2024. *SFRPC interpolated estimate. All numbers are adjusted from the 2017 initial estimate by inflating to 2023 dollars using the Construction Analytics Building Cost Index, [Ed Zarenski](#), 2024, because the FHCF report underestimated costs by using a CPI index to adjust for inflation. Construction-led inflation more accurately represents rebuilding costs.

The SFRPC modeled the impact on premiums by lowering coverage needs to cover the damages from a 250-Year to a fifty-year storm. The premium gap between the coverage needed for a fifty-year storm and a 250-year storm was then treated as ‘surplus’ reinsurance. The costs of that surplus reinsurance were deducted from the average annual growth in premiums to arrive at a national reinsurance program discount on annual premiums. For the U.S. insurance market, the SFRPC estimated that the premium discount would be half of Florida’s annual discount. The dollar amount from those savings was then modeled in REMI PI+ as savings to the Florida and US economies.

Table 6. Summary of Model Assumptions

ASSUMPTION	TREATMENT
Forecasted Florida Premium Growth Rate	10%/Year
Forecasted Premium Growth Rate	5%/year
National Reinsurance Premium Discount (FL)	25% below trend/year
National Reinsurance Premium Discount (US)	12.5% below trend/year

Glossary

Job-Years: one job, part-time or full-time, for one year. A person holding a job for two years is two job-years. Three people holding a job for two years each is six job-years.

Gross Domestic Product: the value of goods and services net of imports the county or state economy produces in a year.*

Personal income: the sum of wages, benefits, rental income, and transfers. *

Disposable personal income: Total after-tax income received by persons. This is the income available to persons for spending or saving.*

* All dollars are given as fixed 2023 dollars.

Economic and Insurance Terms

Ceding/Cession/Recession are related terms. Ceding and cession referring to the transfer of obligations to reinsurers, while recession refers to reinsurers selling their risk to other reinsurers.

Reinsurance: insurance for insurance companies, supporting insurance companies with solvency and capital efficiency of the transfer of and diversification of risk.

Risk Load: the cost of marginal capital needed to support the insurance contract.

Risk of Ruin: the likelihood of losing all one's investment capital or extinguishing one's bankroll below the minimum for further operations

Risk Transfer: the cession of policies from insurers to reinsurers.



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