Ranking Member Tim Scott (R-S.C.)
Opening Statement
Full Committee Hearing
September 7, 2023 at 10:00 AM

Thank you, Mr. Chairman. Thank you all for joining us today for such an important conversation about the state of insurance in states around the country and the important role that insurance plays in the ability for homeowners, specifically as we discuss today, to transfer the risk to an insurance company.

As you would imagine, coming from South Carolina, thinking about my friends in Florida, in Georgia, in North Carolina, thinking about the devastation, the fires in Maui. My prayers and my thoughts are certainly with those folks who have lost family members, who’ve seen their lives devastated, their properties destroyed.

So much attention is given to the challenges of the environment, climate. But too often what we see, whether it’s in Maui or in other states, is a man-made disaster that jeopardizes insurance in those states.

I think about the fact that in my lifetime, as an adult, I spent twenty-plus years in the property casualty insurance business. And so, I do have an affinity for terms that we use when I was in business and – Mike, have you ever been in insurance? Okay, good. So, Mike also was an insurance agent and an agency owner as well.

And one of the things that we would both talk about is the PML, the probable maximum loss. Can [an] insurance company calculate accurately, or even in the range of reality, what is a probable maximum loss within a market, whether that market is the Charleston area where we are prone to hurricanes, or whether it's the state of California, or Ohio with storms and/or other natural disasters, can a company predict the loss that will be incurred, and can they absorb that loss based on the premiums they charge per policy?

And when you cannot, you do not stay in a market. It is kind of that simple. Insurance companies have to follow the basic rules of economics, like any other business. And that's one of the challenges that we see, particularly in states like California and Florida. California’s overregulated market makes it very difficult for insurance companies to make a profit in those states.

And when you can't make a profit, you don't stay in those states. It’s one of the reasons why you see, rather a State Farm, AIG, the insurance companies that we just named, leaving markets – it’s because rates sufficiency is impossible to get there.

And then the inability to find the path forward, rather it's the NFIP that provides some reduction of that risk or as I've discussed before, the absolute necessity of us to get our arms around the catastrophic occurrences from coast to coast – whether that’s a hurricane, an earthquake, a flood, or tornadoes. We have not really wrestled with the actual damages done by catastrophic occurrences across the country.

If you're on the coasts or frankly, if you're in the south, rather, it's Louisiana, Florida, or South Carolina, we account for half of all the premiums going in the NFIP. But when a flood happens in New York or in New Jersey or in Ohio, the policyholders there never heard of or thought of a flood insurance policy. And so they're drawing money out of account without having put any resources in that account.

So we have some real challenges that we should identify and understand and appreciate that every insurance company is wrestling with today. But you think about states like California and Florida, two things without question come to mind – one state you have a burdensome marketplace that is oppressive, that drives business out. It's not just insurance companies that are fleeing the state of California – every other business that can find another place to go seems to be looking for a different market, so I understand that.

Florida – part of the challenge that we see in Florida is that the regulatory environment is challenging. Certainly, the natural disasters are challenging, but with only 9 percent of the policies – homeowner policies in the country – they represent about 79 percent of homeowner insurance lawsuits. Over the last decade, companies in Florida have paid out $51 billion. However, 71 percent of that goes to attorneys’ fees. Somethings broken in the market where it's not the homeowner that's receiving the lion's share of the resources, it's the lawyers because of the challenges in a broken state as it relates to the litigious environment that is apparent, obvious, and clear in Florida.

And so, whether it's California or Florida, we need to understand holistically the challenges that these insurance companies face and why they continue to pull out [of] the markets. I'd love to hear from the experts today solutions, opportunities to recalibrate markets, and for us to have a panoramic view of how to keep insurance companies viable in those markets because, without any question, homeowners today are desperately looking for opportunities to afford the coverage.

I think the average – as the Chairman suggested earlier – the average premium for a house [is] $1,700 dollars for homeowners. For the same policy in Florida, it's $6,000 dollars. That's the case – it's not simply a case of rate sufficiency based on the probable maximum loss of a natural disaster. It has to do with the $51 billion dollars paid to attorneys that have to be factored into that new definition of rate sufficiency that is going to be really hard to meet if that environment doesn't change.

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