Financial Services Dynamics in Florida

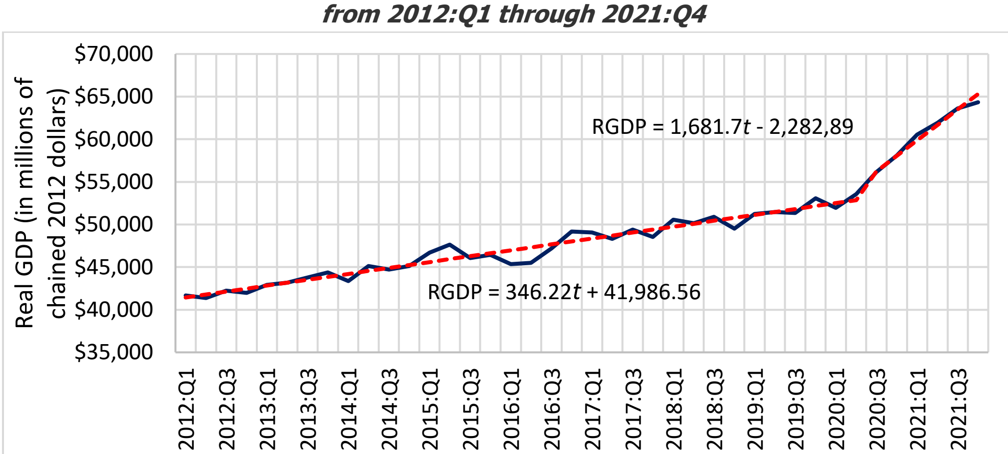
First Quarter 2022

The Florida Department of Financial Services

REF.: Florida Statutes Section 20.121(6) April 1st, 2022

In the fourth quarter of 2021 (2021:Q4), the Florida statewide Real Gross State Product (GSP) in Finance and Insurance was $64.3 billion (chained 2012 dollars), scoring an increase of $6.2 billion with respect to the fourth quarter of 2020, or 10.7 percent. Figure 1 shows Real GSP for the Finance and Insurance sector, from 2012 through 2021. Next an interrupted time-series is depicted with a pivot point from 2020:Q2 to 2020:Q3. In comparison, Florida's Real GSP growth in Finance and Insurance was 4.0 percent from 2019:Q2 to 2020:Q2 (*i.e.* a full year pre pivot-point), and 13.3 percent from 2020:Q3 to 2021: Q3 ((*i.e.* a full year post pivot-point). The Covid-19 pandemic event, and the decision by the Governor to stay open for business attributed to this result.

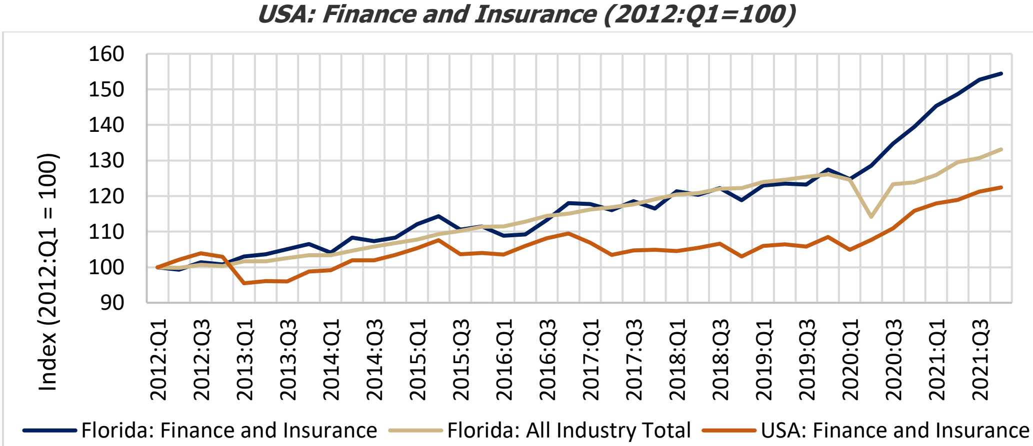
Figure 1. Florida: Finance and Insurance Real GSP (in millions of Chained 2012 USD), from 2012:Q1 through 2021:Q4



Source: BEA (*t* is time; 1 through 40)

For comparison purposes, in Figure 2, Florida's' Finance and Insurance Real GSP (blue) is compared with All Florida Industries Real GSP (light brown) on the one hand, and with the US Finance and Insurance Real GDP (brown) on the other, all on the same base (index 2012:Q1=100).

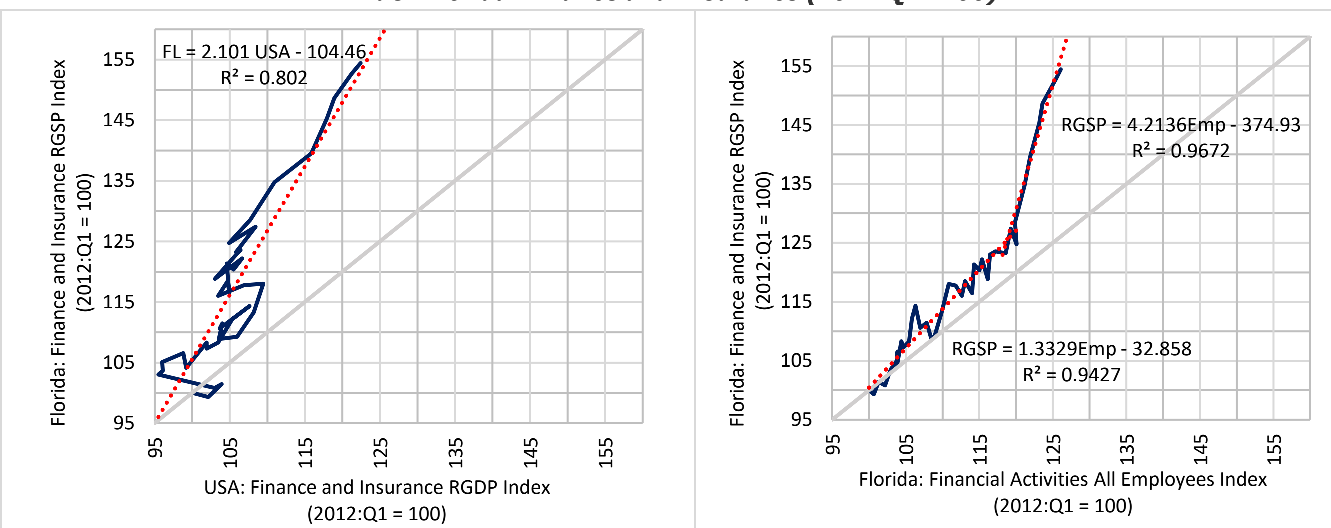
Figure 2. Indices GSP/GDP Florida: Finance and Insurance & All Industries, and USA: Finance and Insurance (2012:Q1=100)



Source: BEA

In the most recent complete year (YoY: Q4-Q4), annualized growth in the USA Finance and Insurance industry was 5.7 percent (as compared to mentioned 10.7 for Florida). In addition, Florida's industry outperformed Florida All Industry Total scoring a growth of 7.5 percent. A comparison with the USA Finance and Insurance indices on the horizontal axis and the same for Florida on the vertical axis is depicted in Figure 3a. Any datapoint over the 45^0-degree line means an advantage of Florida's' sector over that of the national Finance and Insurance sector. As can be taken from the figure, Florida's sector has been outperforming the national Finance and Insurance sector real growth at an added average annual rate of 4.8 percent annually since Jan-2012. In Figure 3b the same Florida Finance and Insurance indices are set against the sectors' All Employees index (horizontal axis), providing a perspective on employee productivity. Next to the data-series an interrupted trendline is depicted with the same timely pivot-point as in Figure 1. Prior to the pivot point, Real GSP growth in the Florida Finance and Insurance sector was 4.0 percent, whereas for the same sector employment growth was 2.3 percent annually. Post pandemic/pivot-point real sector growth is 13.3 and employment 3.5 percent respectively. Hence, labor productivity growth of the sector was approximately 1.7 percent (≈4.0 – 2.3) per annum, while since it runs at approximately 9.8 percent (≈13.3 – 3.5) per annum. Hence, productivity in Florida's Finance and Insurance industry post pivot-point is over nine times higher than productivity growth pre pivot-point.

Figure 3a-b. Index Real GDP USA: Finance and Insurance versus Index Florida: Finance and Insurance (2012:Q1=100)



Source: BEA

Debt Report 2021[1]

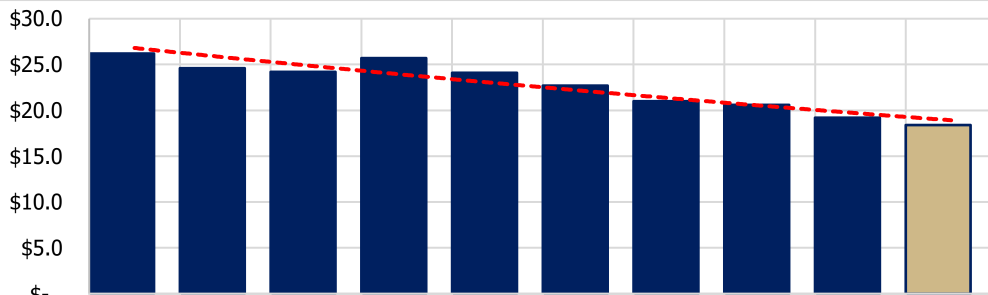
Debt reflects heavily on activities within Financial Services. ***Revenues*** "declined by $1.7 billion (or 3.9%), in FY 2020 as a result of the COVID-19 pandemic. FY 2021 actual revenue collections were above FY 2020 collections by $6.3 billion (or 15.0%). The primary increase in available revenues - $4.5 billion - was the result of increased General Revenues, primarily sales taxes and corporate income taxes, as a result of the States' strong recovery from the economic impacts of COVID-19. ... In addition to strong General Revenue recovery, the State received an allocation of $4.6 billion in Coronavirus Relief Fund (CRF) under the CARES Act. ... The state also received an allocation of America Rescue Plan Act (ARPA) funds totaling $8.8 billion. While these federal funds are not included in revenues available for debt service ... and debt analyses, utilization of CRF and ARPA funds helped offset the fiscal impact of additional expenses related to the States' response to the COVID-19 pandemic and provided a unique opportunity to make one-time, strategic investments in transportation and resiliency projects".[2]

Debt Outstanding. "The trend in the State's outstanding debt is important in evaluating how debt levels have changed over time. Total State direct debt grew to a peak of $28.2 billion in FY 2010. The increases in debt outstanding were primarily due to the issuance of PECO bonds, the State's largest bonding program, Florida Forever bonds, PPP obligations, and correctional facility financings. Over the past 10 years, total direct debt declined by approximately $9.8 billion, or 35%, because very little

[1] Debt section largely based on: Division of Bond Finance, State Board of Administration: Debt Report 2021, December 2021. Retrieved from: .https://www.sbafla.com/bond/Portals/0/Content/DebtReport/DAR%202021%20Report%20%20FINAL.pdf?ver=2021-12-15-113856-947
[2] Ibid p.18

new money debt has been authorized. The decrease is due in part to a change in debt management policy that requires more rigorous scrutiny of debt financed projects with a focus on the return on investment or other appropriate quantitative metrics. In FY 2015, debt increased by approximately $1.5 billion due to substantial investment in transportation infrastructure (I-4 Project) and a refinement in how DOT PPP obligations are recorded in this report. In FY 2021, debt declined by $825 million and continued the downward trend that, except for FY 2015, started in FY 2011".[3] The average decline in direct debt outstanding, over the timeframe depicted in Figure 4, is 3.85 percent per annum.

Figure 4. Direct Debt Outstanding in Billions of US Dollars, 2012 through 2021 (2021 projected)

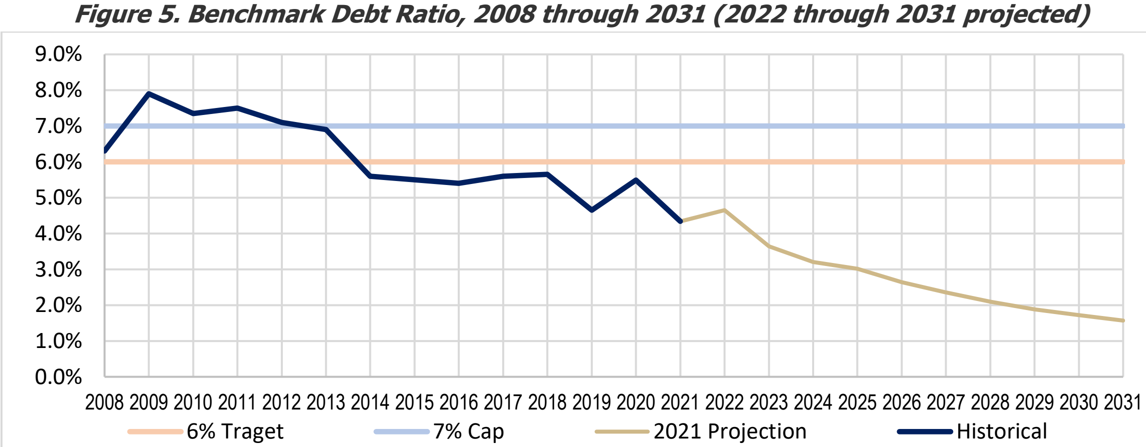


	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Debt Outstanding	$26.2	$24.6	$24.2	$25.7	$24.1	$22.7	$21.0	$20.6	$19.2	$18.4
Annual Change	$(1.9)	$(1.6)	$(0.4)	$1.5	$(1.6)	$(1.4)	$(1.6)	$(0.4)	$(1.4)	$(0.8)
% Change	-6.9%	-6.2%	-1.5%	6.2%	-6.3%	-6.0%	-7.3%	-1.9%	-6.9%	-4.3%

Source: DMS, Debt Report 2021

"Debt affordability is based on the ratio of debt service to revenues available to pay debt service. … Following a temporary increase in the debt ratio in FY 2020 to 5.49 percent … the benchmark debt ratio decreased significantly in FY 2021 by 1.19 percent to 4.30 percent, largely a result of the significant rebound in revenues generated by the State's strong economic recovery. … Revenues for FY 2022 and beyond are projected to continue to improve. ... Projections (Figure 5) show the benchmark debt ratio remaining below the 6 percent policy target over the forecast period".[4,5]

Figure 5. Benchmark Debt Ratio, 2008 through 2031 (2022 through 2031 projected)



Source: SBA, Debt Report 2021

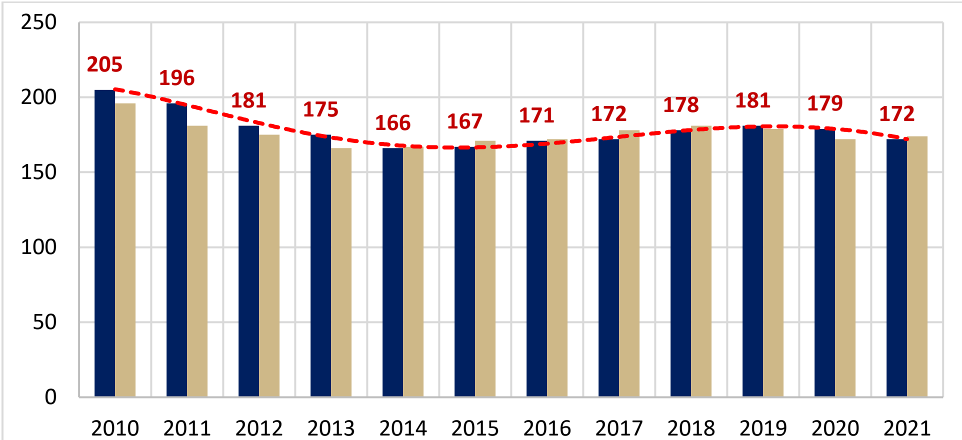
Florida Property and Casualty (P/C) Insurance Carriers.

The market structure of the P/C Insurance market, from an Economic Perspective, is Monopolistic Competitive. Monopolistic competitive markets show signatures of both monopoly and perfect competition.[6] It is akin to perfect competition in the sense that the number of sellers is sufficiently large so that the actions of any individual seller do not have a perceivable influence upon competitors, hence market outcomes. It is monopoly (or differentiated oligopoly) in the sense that each seller faces a negatively sloped demand or sales curve for its' distinct product (made heterogeneous or distinct by "branding" or otherwise

[3] Ibid p.14
[4] Ibid p.19-20
[5] Debt ratio = debt service or cash required to cover the repayment of interest and principal on a debt for a period / revenue available to pay debt service.
[6] See Chamberlin, E.H. (1956). The Theory of Monopolistic Competition (7th ed.; Cambridge, Mass.: Harvard, 1956).

product differentiating in the eyes of potential buyers). Companies operating under monopolistic competition compete mainly based on product differentiation (Note: Non-price competition!), leading to consumers paying more since price at "equilibrium" is greater than marginal revenue (P>MR). Provided the inefficiencies in the market, it is expectant that there is a relative high turnover under P/C insurers. Questions *a.o.* are; how many P/C Insurers there are in Florida and is there evidence to suggest there is elevated turnover amongst companies in this market segment. Figure 6 depicts the number of P/C Carriers, 2009 through 2021.

Figure 6: Number of P/C Carriers serving Florida, years 2009 through 2021



Source: data request OIR

Blue bars represent the number of P/C carriers at the beginning of the year and the brown bars the number at the end of the year. The average number of P/C Carriers over the timeframe shown is 178.2 (std. 11.1). The observed maximum of 205 and a minimum of 166 carriers, variations fall within expected ranges (i.e. no obvious or significant outliers).

In Table 1, the above number of P/C Insurance carriers is broken out to carriers either entering or exiting the market. The top-half of the table presents the data in absolute numbers, whereas the bottom part shows the same in relative changes, with respect to the previous year total. Pink highlights are added in the bottom part of the table showing relative higher deviations. The starting position in 2010 is as above 205 carriers.

Table 1: Entrees and Exits in the P/C Insurance market in Florida, years 2009-2021.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Begin	205	196	181	175	166	167	171	172	178	181	179	172
Entrées	3	4	6	5	10	9	8	13	7	9	5	11
Exits	12	19	12	14	9	5	7	7	4	11	12	9
Total End	196	181	175	166	167	171	172	178	181	179	172	174
Entrées	1.5%	2.0%	3.3%	2.9%	6.0%	5.4%	4.7%	7.6%	3.9%	5.0%	2.8%	1.5%
Exits	5.9%	9.7%	6.6%	8.0%	5.4%	3.0%	4.1%	4.1%	2.2%	6.1%	6.7%	5.9%
Total	95.6%	92.3%	96.7%	94.9%	100.6%	102.4%	100.6%	103.5%	101.7%	98.9%	96.1%	95.6%

Source: request OIR

It may be taken from Table 1 that deviations are small and more than likely represent normal market dynamics. Average annual deviations fall between -5.6 percent and plus 4.3 percent respectively. The data is not further checked on possible merging parties, which would in principle drop one carrier in the calculus, this where a new entity may or may not continue to provide insurance services under the same or alternate name (e.g. alternate name +1, same name +0).