THE BOND BUYER

For the first time in over 30 years FIGA selling insurance bonds

By

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For the first time in more than 30 years, the Florida Insurance Guaranty Association tapped the municipal bond market, selling tax-exempt fixed-rate bonds last week to help fund claims from insolvent insurance companies in the state.

FIGA is set to head back to the market next week with a $125 million variable-rate deal.

The Sanibel-Captiva causeway remains under construction this month. Hurricane Ian hit Florida last year and severed Captiva Island from the mainland. ***Bloomberg News***

BofA Securities, as bookrunning senior manager, received the written award Thursday on the $465.325 million of Series 2023A-1 insurance assessment fixed-rate revenue bonds, which were issued through the Florida Insurance Assistance Interlocal Agency, the first time FIGA issued securities through the Interlocal Agency.

The bonds were priced with 5% coupons to yield 3.45% in 2024, 3.38% in 2025, 3.31% in 2026, 3.25% in 2027 and 3.26% in 2028.

The bonds were secured by pledged emergency assessments of 1% levied on insurers by the state Office of Insurance Regulation.

Corey Neal, FIGA executive director, said the deal was warmly received by investors and saw a lot of participation from market players.

"We were very pleased with it," he told The Bond Buyer. "It was way oversubscribed. We got about $1.2 billion in orders for the fixed-rate piece and were able to use that leverage to negotiate a little bit lower rate and get them all placed."

Citigroup, J.P. Morgan Securities and Wells Fargo Securities were co-senior managers.

Bryant Miller Olive P.A. was bond counsel; Nabors, Giblin & Nickerson P.A. was disclosure counsel; Meenan P.A. was counsel to FIGA; and Hand Arendall Harrison LLC was counsel to the issuer. The financial advisor was Raymond James & Associates.

The issue was rated A2 by Moody's Investors Service and A by S&P Global Ratings. Both agencies assign stable outlooks to the bonds.

Insurance litigation in the state had been excessive and persistent, said Ben Watkins, director of the state's Bond Division.

"Of all of the things that have transpired as a consequence of this abusive litigation, tort reform is the biggest and most significant and it's a game changer going forward for the health of the insurance market in Florida," Watkins told the Bond Buyer.

He said tort reform shows the state recognizes how important a healthy insurance market is for residents.

One of the consequences of the recently passed legislation, "is the availability of reinsurance — the reinsurers had stepped away from writing policies in the state because they couldn't model the losses because of the abusive litigation," he said.

"By changing the perverse incentives, such as one-way attorney fees and assignment of benefits, now the reinsurers are able to get their arms around the risk and write the risk," Watkins said.

All insurance companies that operate in Florida were able to purchase their reinsurance for the upcoming hurricane season by the June 1 deadline, he noted.

FIGA was last in the market more than 30 years ago to help insurance companies deal with the devastation left by Hurricane Andrew in 1992.

Andrew, which hit South Florida, ranked in the top five most powerful hurricanes to hit the United States. The category 5 storm caused widespread death and destruction as it passed through Homestead and Cutler Bay in Miami-Dade County.

The storm also hit Louisiana and the Bahamas. In total, Andrew destroyed 63,500 houses, damaged 124,000 and caused $27.3 billion in damage — about $57 billion in 2022 dollars — and left 65 people dead.

The next year, FIGA sold Series 1993 special insurance assessment revenue bonds through the city of Homestead under the Hurricane Andrew Covered Call Claims Assistance Program to help insurance firms pay off some of the property damage claims.

In 1992, Hurricane Andrew, a category 5 hurricane, caused widespread death and destruction as it passed through Homestead and Cutler Bay in Miami-Dace County. **AdobeStock**

Next week, FIGA is expected to tap the market again — this time with up to $125 million of Series 2023A-2 variable-rate insurance assessment revenue bonds, which will be reset weekly.

The issue will be priced by BofA Securities as sole manager and rated A2/VMIG-1 by Moody's.

FIGA's Neal noted it has a special agreement and cap from the state Treasury's Department of Financial Services Division on the variable-rate piece.

"It's a stand-by purchase agreement," Neal said. "So if these variables — which are repurchased and sold every 30 days — if there's not a market for the securities, the Treasury has agreed to come in and buy them at the market rate and pay the appropriate interest rate, which is capped at 8%."

Having that agreement means FIGA didn't have to purchase that capacity through a bank, he said.

Watkins agreed, saying the state would save money by not having to go to a bank for a letter of credit for the variable rates.

"We're providing internal liquidity," he said. "The Treasury is willing to step up and be the liquidity support."

This is another indicator "of how important the state believes a healthy and stable private insurance is," he added.

Besides shoring up the insurance firms, the almost $600 million of proceeds of the two deals will go toward repaying $150 million of bond anticipation notes and capitalized interest through March 1, 2024.

FIGA was created in 1970 to provide a way to process the payment of claims of insolvent property and casualty insurance companies. All 50 states have such guaranty funds. Membership in FIGA is mandatory for all insurers in Florida as a condition to transact business in the state.

FIGA has two separate accounts — the auto account and the "all other" insurance account. Only the "all other" account has bonding capabilities.

The Interlocal Agency was created as a conduit for the issuance of FIGA bonds after the Homestead issuance and its only purpose is to expedite the payment of covered claims for insolvent insurance companies on behalf of FIGA.

On June 15, S&P raised the issuer credit rating on the Interlocal Agency to A from A-minus.

"The upgrade reflects our view of moderate volatility in the pledged assessments, based on stability in the premium base as well as ample flexibility to raise the assessment levy, should the need arise," said S&P credit analyst Oscar Padilla.

S&P said its stable outlook was based on the agency's view that the assessment base, which ultimately secures the bonds, will provide ample capacity to cover debt service.

"We do not expect to raise the rating within the outlook horizon, due to the potential for significant debt and assessments from FIGA, as well as Citizens Property Insurance Corp. and Florida Hurricane Fund Corp., if multiple or severe hurricanes were to hit Florida," S&P said.

Moody's, which affirmed its ratings on the agency last month, said its ratings were based on the credit profile of the obligor FIGA, which "reflects the large and growing assessment base that supports debt service, ample debt service coverage with rapid debt repayment.

"The rating incorporates significant environmental risks to the state as a whole, specifically hurricanes, sea level rise and flooding (E-4 issuer profile score), which is somewhat mitigated by FIGA's strong legal and governance structure (G-1 issuer profile score)," Moody's said.

FIGA's assessment base consists mostly of property insurance policies and other related lines of business, Moody's said, which can be volatile through downturns in the real estate market, "but is buffered by debt service coverage of two times from emergency assessments based on the 2022 assessment base amount, and the legal ability to increase the assessment levy above the current 1%."

Moody's added, the legal structure of the deal was enhanced by a closed loop of funds, where excess funds will to be used to pay down bonds or additional claims once the scheduled debt service is paid.

Last year, the Louisiana Insurance Guaranty Association sold $458 million of insurance assessment revenue bonds for the first time since the 1990s.

On Friday, the Florida Division of Emergency Management said that more than $1 billion in funding has been pledged to communities after the devastating impact last year of Hurricanes Ian and Nicole.

During the state's response to the storms, FDEM prioritized recovery aid and locked in $1 billion in obligated funds in the first 256 days post-landfall of Hurricane Ian. As a result, about $1.2 billion in resiliency funds has been made available through the hazard mitigation grant program.

Since 2019, over $8.3 billion in relief funding has been paid out to disaster-impacted local communities.

Watkins noted a lot of hysteria around the insurance marketplace, "but the credit that secured these bonds that finances credit that is needed for them to fulfill their mission is tried and true."