NEWS

FOR IMMEDIATE RELEASE:
November 2, 2011

CONTACT: Chris Barry
Communications Coordinator
850-222-5052, ext. 32

Florida TaxWatch Analysis of Hurricane Insurance System Shows Reforms are Needed but Must Be Carefully Analyzed

TALLAHASSEE — An analysis of Florida's hurricane insurance system shows that reform to the Florida Hurricane Catastrophe Fund (FHCF) is necessary, but the impacts on the system as a whole must be understood before action is taken, according to *Risk & Reform,* a report released today by Florida TaxWatch, the nonpartisan, nonprofit, research institute and government watchdog. The report examines the financing of the hurricane insurance system and analyzes existing proposals to modify the FHCF to determine the costs and benefits of these proposals and their effects on other components of the system.

"Florida's property insurance system is broken and reforms are clearly needed to promote a functioning market that will encourage private insurers to return to Florida and reduce taxpayer liability," said Dominic M. Calabro, president and CEO of Florida TaxWatch. "It is especially important that the state-run entities, Citizens Property Insurance Corporation and the Florida Hurricane Catastrophe Fund, which are designed to protect Floridians from the financial impacts of a hurricane destroying their home, are reformed before the next major storm makes landfall." The report outlines the interrelated parts of the system, examines how they are financed, and details the substantial exposure of CPIC and the current concentration of risk. Most importantly, while others have simply called for reform, this Florida TaxWatch report quantitatively analyzes several proposals for reforming the FHCF.

The report finds that currently proposed reforms will reduce the probability, frequency, and amount of potential FHCF assessments on the businesses, consumers, charities, auto owners and others who ultimately pay the FHCF Emergency Assessments, but will increase premiums. According to the analysis, different reform proposals come with different costs and benefits. All of the reform proposals analyzed in this report would reduce the probability of Emergency

Assessments from the FHCF, which would affect nearly all Floridians, but each shows an estimated increase in policy cost for the median policy owner. One proposal would raise the median policyholder's cost by an estimated $19.25 annually (representing the lowest increase of the proposals analyzed), while the proposal with the highest cost would increase the same policyholder's cost by an estimated $173.04 annually.

The report also notes that any reduction in exposure for the FHCF via reform increases the net exposure to CPIC, private insurers and reinsurers, FIGA, and the State of Florida. Some immediate legislative reform of the FHCF is necessary because the latest estimate of bonding capability of the FHCF indicates that it is $3.2 billion short of funding its statutory obligations.

That means that unless the reforms are made, FHCF will be selling reinsurance to insurance companies that may be unable to meet all of their obligations, even with the reinsurance. Based on the analysis, Calabro noted, "It is clear that reform is needed, but it is vital that any reform proposals are carefully analyzed to clearly understand the effects on the other components of the insurance system."

Click here to view this report: Risk & Reform

This report continues our ongoing look at Florida's insurance systems. For previous research on this topic, please see the Florida TaxWatch April 2010 Special Report, "Florida's Financial Exposure from Its 'Self Insurance' Programs," available here.

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For Immediate Release:
November 2, 2011

Contact: Melissa Richman
melissa@coremessage.com
850-597-0004

Florida Nonprofits and Business Groups Address Findings of Florida TaxWatch Property Insurance Report

Tallahassee, FL – Following the release of "Risk & Reform: A Florida TaxWatch Analysis of Florida's Property Insurance System" nonprofits and business groups throughout the state expressed their support of the research findings. With less than three months before the start of the 2012 state legislative session, the groups, who have worked together for years supporting reform of both Citizens Property Insurance Corp. and the Florida Hurricane Catastrophe Fund, applaud Florida TaxWatch for researching, analyzing and compiling the report, which will hopefully provide the Florida Legislature with the necessary information to make the appropriate changes to the system this session.

Jose L. Gonzalez, Vice-President, Governmental Affairs, Associated Industries of Florida
"For years, we have stressed the importance of eliminating 'hurricane taxes' to protect Florida businesses and business owners. As mentioned in the report, the current system, which enables Florida to pay for a storm after the fact, creates uncertainty for policyholders. With regard to the business community, the report points out 'this uncertainty, especially among business owners who receive little or no benefit from either the Florida Hurricane Catastrophe Fund or Citizens Property Insurance Corp., could make the difference in a potential company relocating to Florida versus another state.' For the sake of continuing to revitalize Florida's economy and protecting the citizens of this great state, we urge the Florida Legislature to review the recommendations within the report and take the necessary action this session to reform Florida's property insurance market."

Manley K. Fuller, President, Florida Wildlife Federation
"As pointed out in the Florida TaxWatch report that was released today, 'whether they realize it or not, policyholders in Florida are currently paying assessments to pay for damage from the 2005 storm season, and will be paying some of those assessments until 2016.' So despite the fact we've been hurricane-free for years, hurricane taxes of the past continue to haunt us. If a storm hits next year or the year after that, all that means is more assessments. We urge the Florida Legislature to enact reform that will end the practice of allowing Citizens and the Cat Fund to subsidize reckless coastal development, which eliminates natural storm buffers, like barrier islands and coastal wetlands that diminish storm energy and floods. Restructuring the state-run entities and taking the burden off the backs of all Floridians should be the top priority of our elected officials this upcoming session."

Dr. J. Robert McClure, III, President and CEO, The James Madison Institute
"The restoration of Florida's broken property insurance market has been a top priority of the James Madison Institute for years. We concur with Florida TaxWatch that action must be taken to better protect all Floridians from the risk of a financial calamity. The Florida Legislature would be wise to take immediate steps to limit the exposure of the Florida Hurricane Catastrophe Fund and allow the private market to assume the risk in order to stabilize the state's insurance market, before it's too late."

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