

Storm Clouds Gather Over Florida Insurers

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By Leslie Scism

State-run entities that expanded over the past decade to provide affordable homeowners insurance in hurricane-threatened Florida are in danger of becoming so big they threaten to wreak havoc on the local economy.

Citizens Property Insurance Corp., already the state's largest home insurer, was growing late last year at a clip of 4,000 policyholders a month. It now has 1.5 million policyholders and a total exposure of \$511 billion, about one-quarter of the market.

A sister entity, the Florida Hurricane Catastrophe Fund, is on the hook to reimburse insurers operating in the state up to \$18.4 billion for losses they would incur from major storms. It has about \$7 billion on its books from accumulated premiums from the past six years, in which Florida has been hurricane-free.

A diverse group that includes Gov. Rick Scott, senior state officials, business groups, a taxpayer-watchdog group and environmentalists is concerned that the state traded protection against natural disaster for possible future financial disaster in allowing the entities to grow as big as they have.

The concern is a major hurricane could cause serious problems: If the two entities were unable to sell post-disaster bonds as planned, some insurers could become insolvent, homeowner claims for repairs could go unpaid, and assessments and surcharges on policyholders statewide could damage the economy.

Many in the group want to grant Citizens greater authority to raise insurance rates, making it a less-attractive option for consumers. Under present law, its rates can't go up more than 10% a year. In many areas of the state, Citizens charges lower rates than private insurers because the state legislature in 2007 rolled back and froze its rates for three years.

In addition, the group supports pending legislation to ratchet back the size of the Catastrophe Fund, which serves as a reinsurer of sorts to about 170 insurers operating in the state, including Citizens. Reinsurance is coverage insurers buy to help pay claims.

The measure, proposed in a shortened legislative session scheduled to conclude at the end of March, would seek to move the funding of hurricane losses to the global reinsurance market.

At present, the Cat Fund counts on selling municipal bonds, if needed, after a major hurricane or series of midsize ones to raise cash to forward to insurers so they can cut checks to their policyholders. Such posthurricane bonds would be paid off through assessments on property-casualty policyholders of all insurers in the state and many types of insurance, with businesses bearing a significant burden.

"We're dealing with a house of cards," Pam Bondi, Florida's attorney general, said during a November state cabinet meeting with the governor. She was reacting to low estimates received from four Wall Street firms for the Cat Fund's bond-selling capacity. Those estimates averaged \$8 billion, while the Cat Fund then was counting on as much as \$11.2 billion in possible bond sales for hurricane claims to honor obligations potentially totaling \$18.4 billion.

"We want to right-size the Cat Fund given the current state of the financial markets," said Jack Nicholson, chief operating officer of the CatFund, in an interview. If the state can't sell as many bonds as it counts on when contracting to help insurers pay their claims, some insurers in the state would go under and some claims to rebuild homes potentially wouldn't be paid in full, he said.

The drop in capacity at the Cat Fund proposed in the legislation would likely increase insurance prices by about 10%, officials said.

"People feel the insurance [already] is high-priced, and that's something they see no end to, and they're upset about it," said Thomas Towns, a real-estate agent in Pinellas Park, just north of St. Petersburg.

Still, at least one consumer group has said it would support a modest increase in rates tied to shrinking the Cat Fund. "I can't be irresponsible" in the fight for affordable insurance, said Bill Newton, executive director of the Florida Consumer Action Network.

Environmentalists, meanwhile, are hoping the measures will slow down development in sensitive areas, and business groups have hailed the reinsurance bill as an important step in reducing what they call "hurricane taxes," the assessments on consumers and businesses to pay off posthurricane bonds.

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