Florida wind insurance overhaul unlikely to pass

By BRENT KALLESTAD, Associated Press
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TALLAHASSEE —— State lawmakers have gambled with their constituents' money for years when it comes to dealing with Florida's property insurance issues.

But now, many top industry analysts suggest, the odds may be turning against them after six years without a hurricane hitting Florida. Insurance experts say the Florida Hurricane Catastrophe Fund needs more money and an overhaul before a major storm or series of them strikes the state. If not, consumers could be paying massive surcharges on their insurance coverage and the state government left in financial straits for decades, they say.

Despite these warnings, it doesn't appear the Legislature will act before the end of its annual session March 9 because any fix will cause higher insurance rates — not a popular decision, particularly in an election year. But any increase would be minuscule compared to those that will be required if a disaster strikes before a fix is made.

Officials have already abandoned a special $12 billion expansion of the fund when it became apparent they wouldn't be able to fund it and are worried about their ability to meet the present $11.7 billion obligation.

"I'm dumfounded that our approach to risk management is to pray that we don't have a storm," said first-term state Rep. Bill Hager, a Boca Raton Republican and former insurance commissioner in Iowa. "Only luck has saved us from a financial disaster."

The fund was created in late 1993, 15 months after Hurricane Andrew, a Category 5 storm with 150 mph winds, nearly destroyed the town of Homestead, south of Miami. It caused widespread damage resulting in $57 billion in losses for property insurance companies, adjusted for inflation. That had many companies leaving the state, fearing a repeat.

To stop the exodus, the state-owned and -operated fund offers insurance companies lower-cost reinsurance — basically policies that help protect the companies from catastrophic losses. Currently, the fund would be liable for about $18 billion and has about $7 billion in cash reserves. That means the state would have to borrow $11 billion by selling bonds, probably at high interest rates in an uncertain market, to cover those losses. To pay those back, the state would impose a surcharge on every property and auto insurance policy, costing the average consumer hundreds of dollars annually.

"Our luck is eventually going to run out," longtime fund head Jack Nicholson testified at a House Insurance and Banking subcommittee meeting recently. "You can't continue to roll the dice and be lucky every time."

Nicholson isn't sure they would be able to bond more than $8.5 billion, leaving a $3.2 billion shortfall.

He gets plenty of agreement in high places, albeit apparently not enough in the Legislature.

Gov. Rick Scott and others have been pushing legislators to reduce the state's exposure by forcing the insurance companies to buy more of their reinsurance from private companies. They argue that while that will raise rates, the increase will be much smaller than the post-catastrophe surcharge will be.

"Don't create a state organization that says they're selling a product that they're really not selling. To believe that you can go borrow money after a significant disaster is not realistic. We've got to live in reality," Scott said.

Scott also worries about the state's ability to meet its current obligation. The state-backed insurer of last resort, Citizen's Property Insurance Corp., would also be borrowing billions of dollars, driving up interest rates and, ultimately, consumers' costs in the wake of a catastrophic storm.

Hager's bill (HB 833) would have reduced the state's liability to $12 billion within four years but the House insurance subcommittee pulled it last month, effectively killing it without a vote, even though it was supported by consumer and business groups.

A similar bill (SB 1372) was approved by the Senate Banking and Insurance Committee on Thursday, but has a long way to go in a short time to win passage. Sponsor JD Alexander, a central Florida Republican, says it's a priority.

Robin Westcott, the consumer advocate in the Department of Financial Services, thinks Hager's bill was too aggressive. She thinks a drop to $15 billion in exposure is more palatable — it would reduce the state's long-term risk but lessen the immediate blow to property insurance rates.

"Consumers feel right now that they pay enough for homeowners insurance," Westcott said. "Anytime you do something this aggressive in one place it will cause a ripple in another."

Hager is blunt about his colleagues' inaction.

"A recipe for disaster," Hager said. "We need to change the CAT fund structure to reflect reality."