



Quick action needed to bolster insurance

BY CHRISTIAN CAMARA

February 22, 2012 12:05 AM

Our state Legislature ends its 2012 session in just a few weeks. Unless our leaders act in these remaining days, they may leave Florida at enormous risk by failing to act on a broadly supported, necessary reform: right-sizing the Florida Hurricane Catastrophe Fund, known by most as the "Cat Fund." As a result, a single bad hurricane could send the state's finances for a tailspin and result in thousands, potentially millions, of legitimate insurance claims going unpaid. That would be catastrophic for everyone who lives in Florida.

Some background can explain the situation: The catastrophic fund offers reinsurance coverage for all of the state's property insurance companies, including Citizens Property Insurance Corp., the state-run company that sells more insurance in Florida than any private company. (Reinsurance is insurance for insurance companies.) Unlike private reinsurance, which companies negotiate for in private transactions, every insurer in the state must buy catastrophic fund coverage. Also unlike private reinsurers, which are legally required to have resources sufficient to pay the claims they reasonably expect to receive, the catastrophic fund simply can't pay what it promises to. The fund's own managers, indeed, say that a single bad hurricane season could leave it almost \$3.25 billion dollars in the hole. If this happens, state Insurance Commissioner Kevin McCarty says that almost half of the state's 50 largest insurers would not have enough resources to pay claims, forcing them into an administrative supervision process with many similarities to bankruptcy restructuring.

And it gets worse. Citizens, which buys almost all of its reinsurance from the catastrophic fund, would also run into trouble if the fund falters. And this could seriously impair rebuilding everywhere: If almost half of the state's property insurers and Citizens simultaneously encountered problems, more than half of all Florida residents could end up not getting paid for valid insurance claims, leaving them unable to rebuild their homes, businesses and lives after a catastrophic hurricane season. This would have a major ripple effect on the entire state's economy.

This situation has led almost everyone -- insurance groups, the governor, consumer advocates, free market organizations, the state's insurance commissioner, environmentalists, and others from the left and the right -- to support a set of modest reforms proposed by the catastrophic fund's chief operating officer that would gradually reduce the catastrophic fund's capacity enough that it could reasonably expect to pay its claims. At one time, it looked like the bill would sail through easily, but somehow this broadly supported reform has hit a roadblock. If the bill is not saved, Florida will have been dealt a simple failure with huge implications.

The problem is pretty simple: Florida's long run of storm-free weather is going to end eventually. The state has gone six years without being hit by a major hurricane, and most forecasters believe that the chances of this happening in any six-year period are less than 1 out of 100. The luck can't continue forever and, eventually, a major storm will strike the state.

If this happens, Florida could be in enormous trouble and many legitimate insurance claims could end up going unpaid. The Legislature's failure to act will deserve a huge share of the blame. Luck is not leadership. There is still time to act.

Camara is director of the Florida Insurance Project for The Heartland Institute. The Senate version of the catastrophic fund bill could be heard as early as today.