

Steve Pociask: Insurance solvency will protect consumers

5:39 PM, Mar. 2, 2012

For years, Florida's property insurance crisis has remained unsolved, with an ever-building mountain of unfunded debt obligations building up, driving up consumer costs, creating unnecessary risk and uncertainty, hampering Florida's economic recovery and discouraging insurance competition for your business.

Epitomizing these crises, the leadership of the Florida Hurricane Catastrophe (CAT) Fund has testified to the governor and the Legislature that, because of changes in the bond market, the CAT Fund faces a financing hole of \$3 billion or more, leaving it unable to keep all of its promises. This threatens numerous insurers with insolvency and consumers with unpaid claims and future costs increases.

The CAT Fund's chief operating officer, Jack Nicholson, has described the current fund as "dangerously overexposed." However, without financial solvency, what good is your insurance policy?

Despite these alarms, Florida's consumers finally have some reasons to feel encouraged. After years of relying on luck rather than responsible action, Senate Bill 1372, sponsored by Sen. JD Alexander, R-Lake Wales, and House Bill 833, sponsored by Rep. Bill Hager, R-Boca Raton, will help to reform the CAT Fund, reduce the risk of financial calamity caused by the current structure of the fund and benefit consumers statewide. Both bills were created based on a proposal from the CAT Fund's chief operating officer, and they are necessary for consumer protection.

Businesses and many consumers statewide have suffered from the risk of insurer insolvency, with about a dozen insurers facing liquidation in recent years despite the absence of hurricanes. Floridians also have been burdened with the formerly hidden "hurricane taxes" — policyholder assessments, which have been as high as 8 percent and have been levied on most Floridians, even those who do not benefit from the state's broken system.

These risks have been hard to communicate, but Floridians are catching on.

A recent survey by the American Consumer Institute found that 70 percent of Floridians fear being assessed these "hurricane taxes," including those that would result if the CAT Fund runs out of money to meet its obligations. In addition, 80 percent of the consumers surveyed did not want the state to sell more insurance coverage than it could pay in claims, and nearly half of consumers were willing to pay more if it would help avoid insolvencies and taxes.

When it comes to protecting insurance consumers, solvency means everything.

In this case, the proposed bills will increase private capital in the market and increase market solvency, thereby protecting homeowners from potential financial losses. Moreover, these proposals protect consumers from unnecessary cost increases, and they put our state on firmer financial footing.

As a consumer, you should know fixing the CAT Fund is necessary.

Unfortunately, these bills have recently been obstructed by some who place politics over sound policy, but similar reform language may be added to other proposed legislation.

Whatever legislative route CAT Fund reform ultimately takes, it deserves serious consideration by lawmakers.

ABOUT THE AUTHOR

Steve Pociask is president of the American Consumer Institute, a nonprofit educational and research organization based in Tallahassee. Contact him at steve@theamericanconsumer.org.