

## **ABIR's Kading Warns of Consequences from Inaction on Florida Cat Fund**

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Bradley Kading, president and executive director of the Association of Bermuda Insurers and Reinsurers (ABIR), bluntly told members of the Chartered Property Casualty Underwriters Society (CPCU Society) that Florida policymakers have put taxpayers at risk by not reforming the Florida Hurricane Catastrophe "Cat" Fund or the Citizen's Property Insurance Corporation in advance of the 2012 hurricane season.

"Florida policy holders risk higher hurricane tax assessments, higher hurricane insurance prices and the risk their insurer will become insolvent due to the inability of the Cat Fund to fully pay its hurricane reimbursement obligations to ceding insurers," Kading stated.

The ABIR's bulletin explained that "Florida Hurricane Catastrophe Fund Chief Operating Officer Jack Nicholson led the fight for Cat Fund 'right-sizing' legislation in 2012 that would have reduced the size of the Cat Fund to where it could be supported by the debt financing assessments.

"Nicholson noted that in three of the last four years the Cat Fund has been mandated by law to sell catastrophic protection to Florida's ceding insurers but, due to bond market volatility, would not likely have been able to issue sufficient bonds to pay all the claims from a large hurricane – including events that may occur in 2012."

The ABIR also cited a letter from Florida Insurance Commissioner Kevin McCarty, which he sent to legislators, informing them that "if the Cat Fund experienced a 25 percent shortfall in its claim capabilities from a large hurricane event, as many as 24 of the top 50 home insurance writers would have a regulatory capital deficiency."

McCarty also pointed out in the letter that the "companies that would be subject to some 'regulatory action' collectively make up 35 percent of the Florida home insurance market. He also noted that this could cause insurance rates to increase an average of seven percent due to the inability of the Cat Fund to provide additional protection for hurricanes in following years."

Kading stated: "The legislature's failure to act this year is a sign of election year politics trumping sound fiscal policy and long term consumer protection. We commend Jack Nicholson, and state Rep. Bill Hager and Sen. J.D. Alexander for their leadership in supporting Cat Fund reform. We also commend the Florida Consumer Action Network, Florida Tax Watch, Florida Chamber of Commerce, Associated Industries of Florida, the League of Municipalities and the Florida Wildlife Federation for their support of this important legislation and their commitment to further reducing the post-event hurricane tax assessment burden."

Kading also stressed the remarkable contribution of global reinsurers in 2011 in paying record-setting claims from floods, hurricanes, fires, earthquakes, tornados and tsunamis. International reinsurers paid an estimated \$47 billion of the record \$105 billion in global catastrophe losses last year.

“Reinsurers are strongly regulated with robust capital requirements, stress testing and financial examinations by regulators including the Bermuda Monetary Authority,” he noted. “Their resilience in spite of these losses demonstrates that reinsurers stand ready to fulfill the promises they make to their clients.

Kading added: Reinsurers provide “dependable, growing capacity” to meet US consumer needs, and, in addition have “pre-event capital in the bank to pay their claims, something in which government funds like the Florida Cat Fund are deficient. Such funds are dependent on bond debt and assessments on all Florida consumers to pay their claims. These bonds saddle future consumers with an unnecessary and growing debt burden.”

Kading described the “politically inspired restrictions on the ability of reinsurers to provide capacity for their clients,” as the “biggest threats to US Cat markets.” He explained that they result in “rate suppression, government run reinsurance funds or protectionist measures like US Rep. Richard Neal’s (D-MA) discriminatory reinsurance tax.” All of which “drive away private capital and deprive consumers of the benefit of competitive markets.”

Source: Association of Bermuda Insurers and Reinsurers ([ABIR](#))