INSURANCE JOURNAL

Florida Cat Fund's Financial Condition Triggers A.M. Best Review of Insurer Ratings

June 4, 2012

Insurers writing homeowners coverage in Florida could see a revision in their financial ratings after one of the nation's top rating companies announced it will reconsider them in light of the financial problems faced by the state-back reinsurance facility.

A.M. Best said earlier this year it would reevaluate its treatment of insurers' reinsurance capacity when the Florida Hurricane Catastrophe Fund indicated it would likely have trouble meeting its statutory obligations.

The Cat Fund by law is required to provide insurers with up to $17.3 billion in total reinsurance per hurricane season. That includes $17 billion in mandatory coverage and $317,000 in optional coverage.

Cat Fund officials estimate they will have $8.5 billion available to pay claims, but would issue up to $8.7 billion in bonds to meet its total obligations. That would be over $2.5 billion higher than the State of California's $6.5 billion bond issuance, which is the highest municipal bond deal done since 2009.

However, the Cat Fund's financial senior managers indicated that based on the current market conditions the fund likely could find few investors with the appetite to take on that kind of risk.

Goldman Sachs estimated the fund more realistically could only issue between $2 billion and $4 billion in bonds. JP Morgan and Citi had higher estimates, but both noted that market conditions could reduce any projections.

As a result, Cat Fund officials estimated it could end up with a $2 billion to $3 billion shortfall in the event of a major storm or series of storms.

Given the fund's fiscal outlook, A.M. Best said when it comes to assessing a private company's ability to pay claims based on its reinsurance structure it would lower the company's projected reimbursement from the Cat Fund by 5 percent.

Likewise, A.M. Best said it will not include in any company's reinsurance structure any optional coverage the company purchased for the fund.

"A.M. Best believes that reducing the amount of coverage provided by the FHCF and relating it to the projected borrowing capacity represents a more accurate view of overall risk-adjustment capitalization," said A.M. Best in a statement.