INSURANCE JOURNAL

Florida insurance reform push draws strange bedfellows

By Ray Lehmann | Right Street Blog | June 7, 2012

Tom Grady, interim chief of Florida's Citizens Property Insurance Corp., has been on a tour of the Sunshine State, trying to defend he and his board's efforts to try to speed depopulation of the state-run insurer and place it on more sound financial footing.

As would be expected, Grady's facing quite a bit of pushback, from both policyholders and politicians. But there also have been encouraging signs of support for reforming Florida's two big state-run insurance mechanisms – both Citizens and the Florida Hurricane Catastrophe Fund – coming from all over the political spectrum.

When the Florida Insurance Council and the Florida Office of the Insurance Consumer Advocate can find common ground, when the Florida Wildlife Federation and Americans for Prosperity see eye-to-eye, we just might be witnessing a grand convergence.

Writing in the *Miami Herald*, Sam Miller, executive vice president of the Florida Insurance Council, notes that the 75 percent of Floridians who have private insurance coverage are subsidizing the 25 percent insured by Citizens, thus allowing Citizens policyholders to continue paying rates that are roughly 40 percent below what actuaries estimate are needed. These subsidies come in the form of post-event assessments that would be laid on nearly every policy in the state by Citizens following any kind of significant storm.

When it comes to the state's reinsurer, the Cat Fund, Miller points out that, according to estimates from Goldman Sachs, the fund might only be able to raise $1.5 billion to $4 billion in post-event bonds, even though the liabilities it has issued for the 2012 hurricane season run to $17 billion.

> There is a real possibility that all Floridians, including homeowners, business owners, renters, churches and charitable organizations, will be on the hook annually for up to 30 years paying off hurricane tax assessments should another Hurricane Andrew or series of storms like those of 2004 and 2005 make landfall in Florida.

Meanwhile, in a column for the *Gainesville Sun*, Slade O'Brien, Florida director for Americans for Prosperity, noted that analytical data from 11 Florida insurance companies showed that if the Cat Fund suffered a post-storm shortfall of 20%, seven of the 11 would become insolvent. Indeed, for the 2012 reinsurance contract year, insurance rating agency A.M. Best is reducing the credit it grants for Cat Fund reinsurance by 5% in its assessment of companies' risk-adjusted capitalization, while giving no credit at all for coverage obtained through the Cat Fund's optional Temporary Increase in Coverage Limits layer.

> The bad news is that if the Cat Fund actually has a shortfall, some hurricane claims may not get paid at all. Neither situation is good for the taxpayer; in fact it is completely unacceptable for citizens and taxpayers to be put in either position.

It is perhaps not surprising that free market and private insurer groups are lining up on the same side for change, but a growing cadre of voices on the political Left are also joining in to call for real reform. In a letter to the Florida Legislature, six wildlife groups – Florida Wildlife Federation, Audubon Florida, Florida Conservation Alliance, Sea Turtle Conservancy, 1,000 Friends of Florida and the Florida Coastal & Ocean Coalition – argue that changes to both Citizens and the Cat Fund are needed immediately to reduce the incentives for irresponsible development in environmentally sensitive coastal and barrier island regions. As Charles Pattison, president of 1000 Friends of Florida, put it:

> Risky coastal development, which we are all underwriting through subsidized insurance and related programs, not only is a burden to taxpayers, but it promotes development in the very areas that are the most prone to storm damage…No reasonable person can conclude that anything but a fundamental change is overdue, and that we are most fortunate that our luck has held out as long as it has.

Ok, so that means insurers, free market advocates and environmental groups are all on the same page. That's a little unusual, but not unheard of. After all, those are the kinds of coalitions we here at R Street are dedicated to building. Why should anyone think that the calls for insurance reform will be headed?

I'll tell you why. Because now, even the head of Florida's independent Office of the Insurance Consumer Advocate – Robin Smith Westcott, hardly an advocate for laissez-faire insurance markets – is speaking out publicly about the need not only to shrink Citizens and the Cat Fund, but to undo the 2007 rate rollbacks that "have led to a suppression of rates for private carriers that is no longer sustainable if we want to see a marketplace that offers additional choices and products to consumers."

> Even a 1-in-25 year storm is likely to generate assessments for the Cat Fund and would exhaust most of the cash resources of Citizens, thereby increasing the likelihood and magnitude of assessments for a subsequent storm. A 1-in-100 year storm should scare us all because it is estimated to result in residential losses of about $50 billion. Citizens, the Cat Fund, and the Guaranty Fund would deplete all their reserves and would need to assess for more than $25 billion to pay claims.

No matter where one sits on the political spectrum, the facts are abundantly clear. Florida's property insurance system is deeply broken, and to pretend otherwise requires willful ignorance.