GULF COAST
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Insurance promises we can’t keep

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Sen. Garrett Richter

Florida is making big promises on property insurance it probably can’t keep, and Floridians will end up paying for it when the storm hits.

Florida’s state-run market relies on the trinity of market “stabilizers” known as Citizens Property Insurance Corp., the state catastrophe insurance fund (CAT fund) and Florida Insurance Guaranty Association. Each of these entities, though different, is from the same creator: the state of Florida.

This means that should something go awry with one or all of them, you are on the hook as a taxpayer. If this sounds like a major gamble on the backs of Floridians, it is.

The facts are unchanging: Florida has more coastal risk than all of the other states from Texas to the Carolinas combined. We can’t move Florida, can’t control the weather and apparently, can’t control the market to make it viable. Something different needs to be done and it needs to be done soon.

Since Hurricane Andrew hit our state in 1992, Floridians have struggled with maintaining a vibrant private homeowner’s insurance market. Now, 20 years later, we are further behind than ever, and unlike the years leading up to Andrew, only two of the top 20 private carriers in the state have an A rating with A.M. Best.

In fact, the insurance company with the largest number of policyholders (almost 1.5 million) is the government-run entity, Citizens Property Insurance Corp.

If you own a car, run a business or even operate a non-profit, you are at risk for being taxed. When the wind blows, the fragile house of cards can come tumbling down.

Also, if you buy something from a business that has been assessed, you may also be assessed indirectly by paying more for that product. Another storm like Andrew wouldn’t just devastate the communities it hits; it would destroy the state and its residents financially.

For a major catastrophic storm, Floridians would be hit with a variety of assessments. For Citizens policyholders, that could be as high as 83% (for everyone else, 40%), and some of these assessments could span as long as 30 years on top of their insurance premiums to keep the state afloat and ensure people’s claims are paid.

To best illustrate this precarious situation, a homeowner in Miami-Dade insured by Citizens with a $300,000 home could pay an assessment tax of $438 a month on his homeowner’s premium for the first year after the hurricane, or $5,256, and $190 a month for the 30 years after that, or a total of

$68,400. And that would be in addition to any assessment on that homeowner's car insurance or business.

Shocking, right?

Thankfully, Florida has been lucky and blessed to have gone six years without a major storm or series of storms making landfall. This has given us an unprecedented opportunity to shore up our finances and make better decisions for the future.

However, it is unrealistic and irresponsible to rely on luck. It is not a matter of "if" we will be hit by one or more major hurricanes, it is a matter of "when."

Relying on a bailout by all policyholders in Florida, or a government bailout, as is described in the accompanying sections, is not a responsible plan. Floridians deserve a better solution. Floridians deserve a choice.

Fiscally responsible public policy as it relates to property insurance will attract more companies to Florida. Greater supply to meet demand is the responsible solution. Long-term, sound solutions as opposed to short-term, feel-good solutions is the direction we need to head. Floridians deserve better solutions, more companies to insure them and a better plan for when the inevitable happens, because it surely will.

TAXPAYERS AT RISK THREE WAYS

The following sections explain how Florida's three so-called insurance 'stabilizers' work and would work in the event of a hurricane catastrophe.

Guaranty Association

The oldest of the state-controlled insurance organizations is the Florida Insurance Guaranty Association or "FIGA." The Legislature created FIGA in 1970 to handle the claims of bankrupt or failing insurance companies in Florida.

Since FIGA's inception, there have been about 200 insolvencies, with about $3.2 billion being paid to policyholders and claimants of insolvent insurers.

There are limits to the amount FIGA pays for claims of insolvent insurers and the type of claim paid. Every other state, the District of Columbia, Puerto Rico and the Virgin Islands have similar guaranty associations that pay certain outstanding claims of insolvent insurance companies. FIGA is a not-for-profit corporation and operates substantially differently than Citizens or the CAT Fund.

FIGA assessments levied to pay claims of insolvent property insurers can be up to 2% regular and 2% emergency of premium for property insurance on your home, business and non-profit. FIGA only levies a surcharge when an insurance company goes broke and can no longer pay its claim.

Such was the case in 2006 when three Poe-affiliated insurance companies went insolvent, leaving behind more than $865 million in unpaid claims. The 320,000 stranded policyholders needed compensation from someone, and that someone turned out to be fellow Floridians. Three 2% assessments, each equal to an additional $20 for everyone's $1,000 in premium, was levied on almost every policyholder in the state to recoup this huge loss until 2008. The most recent FIGA assessment from late 2009 is 0.8% of premium.

Floridians would be infinitely better served if A-rated carriers with a strong financial background returned to Florida to write property insurance policies, thus better protecting residents and their homes while alleviating the risk of insolvencies and the inevitable assessment/taxes that come along with them.

For more information visit:
www.figafacts.com/home.

CAT Fund
Created by the Legislature in 1993 after the devastation from Hurricane Andrew, the Florida Hurricane Catastrophe (CAT) Fund's purpose is to provide reimbursements to insurers related to catastrophic losses from hurricanes.

This "insurance for insurers" is commonly known as reinsurance, and it serves as a way for insurance companies to transfer their risk to lessen their exposure.

Each year prior to the start of the hurricane season, the CAT Fund provides a "good faith" estimate of its ability to pay out, including its cash on hand and what it can borrow as debt, which ultimately is paid back through assessment taxes on many Florida consumers.

For the upcoming hurricane season, the CAT Fund will pay a maximum of $17.3 billion in claims. Out of that amount, the Fund's cash on hand is $8.56 billion. If a major storm or series of storms caused this amount to be depleted, the CAT Fund estimates it could bond an additional $7 billion, leaving the Fund $1.74 billion short of the amount needed to fulfill the $17.3 billion claim capacity (with the understanding that assessments/taxes will be what repays the bond).

Based on this information, Florida's private carriers will make the decision on whether to purchase additional reinsurance from the private market. Since the CAT Fund requires participation by any insurance company that writes homeowner's policies in Florida, Florida's taxpayers are essentially insuring their insurance companies' risks.

Just like Citizens, state law requires that if the CAT Fund has insufficient cash balance to pay losses, then assessments will be placed on a wide range of lines of insurance to pay for the losses. This assessment can be up to 6% for one year of storms or up to 10% for multiple years storms.

Currently, there is an assessment for the CAT Fund equal to 1.3% for all auto, home, business and non-profit policies with the exception of workers' compensation and medical malpractice policies.

This assessment was levied to pay for losses incurred during the 2005 hurricane season, which totaled $28.98 billion for residential losses reimbursed by the fund.

This assessment is in place until Jan. 1, 2017; there still is more than $340 million remaining in outstanding claims.

This is obviously not ideal for Floridians because this was not the original intent for this fund.

Political "repurposing" of the fund, coupled with the difficult bond markets, have certainly affected its ability to truly serve its purpose as a market stabilizer. Instead, the CAT Fund was turned into a market manipulator, trying unnaturally to force down rates, which it simply cannot do.

Citizens Property Insurance Corp.
Citizens Property Insurance is the most vulnerable aspect of Florida's fragile property insurance market.

With more than 1.4 million policies in effect covering more than $500 billion in risk, it is a far cry from being the state's insurer of last resort. To the contrary, not only is Citizens the largest carrier in Florida, it is the ninth-largest homeowner insurance company in the country.

But even as large as it is, it only insures 19% of the homes in Florida. Sinkhole insurance sold by Citizens, which was just made an optional coverage last year, should cost 463% more based on a huge increase of new claims. Since 2007, for instance, Citizens has collected $206 million in premiums and paid almost $1.2 billion in losses. For many coastal properties, the premiums, excluding sinkhole coverage, should be 56% higher to match premiums associated with the risk.

What happens when Citizens doesn't have enough money to pay its claims?

Take a look at your home, auto, business or non-profit insurance policy, and you will see a 1% emergency assessment for the multiple hurricanes that hit our state in 2004 and 2005. Citizens has three levels of assessments that it can levy to meet its financial obligations when a big storm hits our state.

The first assessed tax, the Citizens Policyholder Surcharge, will charge a maximum of 45% of your annual premium, but it is only paid by Citizens policy holders. If you are a Citizens policyholder, look at your premium and add 45% to it and that's what your maximum obligation could be under the worst-case scenario. This surcharge, or tax, is for one year.

If the 45% assessment does not adequately make up the shortfall, the next assessed tax, called the Regular Assessment, is 2% of premium. This assessment amount was reduced from a maximum of 18% to 2% because of legislation passed in 2012, which was made possible because of the cash balance of Citizens. The cash balance would not have been possible had a storm struck Florida in the past six years, or had we bought reinsurance like the private sector is required to do.

Had Citizens bought reinsurance to the level that Federated National (a Florida insurer) had in 2011, the cost would have exceeded $1.2 billion.

So if you multiply $1.2 billion by six years (since the last storm), you have a negative cash balance of more than $1 billion, without even having a storm.

The regular assessment is levied on all property and casualty policyholders except Citizens. This means that if you don't have insurance through Citizens or don't even own a home and just insure your car or business, you could still pay a Citizens' assessment of up to 2% on each and every policy.

Finally, there is the emergency assessment, which will be triggered if and only if the first two assessments combined do not make up the financial shortfall faced by Citizens. This final assessment could be between 10% and 30% per policy for all Citizens' and non-Citizens' policyholders.

So again, even if you don't have a Citizens policy but own a car, have a private homeowner insurance policy or run a small business, you could be on the "hook" for Citizens claims.

If you look at your home, auto, business or non-profit insurance policy, you will see a 1% emergency assessment due to Citizens not being able to pay all of its claims from the 2004 and 2005 storm seasons. Based on current figures, a storm or series of storms costing $13 billion to Citizens would trigger the assessment taxes, making Floridians pay more when they are struggling just to pay their hurricane deductibles.

Tack on the maximum assessments of FIGA and the CAT fund, and you could have a total Citizens policy surcharge of more than 83% of your Citizens premium the first year after a hurricane hits.

And for those who are fortunate enough not to have a Citizens policy but do own a home, car or business, your total assessment or hurricane tax could be 40% of each one.

By Sen. Garrett Richter and Rep. Bryan Nelson
Rep. Bryan Nelson is a Republican from Apopka. Sen. Garrett Richter is a Republican from Naples. Nelson and Richter chair the state Banking and Insurance committees in their respective chambers.