



February 17, 2013

| OUR OPINION |

Controlling Citizens

Make property insurer a 'last resort' once again

The same geography — endless coastlines touching warm waters — that makes Florida a tourist's paradise also makes the state a nightmare for property insurance.

With our peninsula jutting into hurricane alley, the state presents half of the entire nation's "wind risk." For that reason, other Gulf states don't want to join us for a regional catastrophe fund. Insurance companies, which can deal with risk but abhor uncertainty, shy away. And many of Florida's citizens are paying a lot more for property insurance than they think they should.

One solution to that problem was the state-supported Citizens Property Insurance Corp. It was created in 2002 by the Legislature as the so-called "insurer of last resort."

But the insurer of last resort has become the preferred insurer, especially for coastal residents who might otherwise face much higher rates. Today, 23 percent of Florida properties are insured by Citizens, which has become the largest property insurer in the state.

But who is being helped? It's not just Florida's financially strapped workers and retirees. It's also millionaires on exclusive Fisher Island, off Miami, and foreigners who have built homes in prime vacation spots.

This growth of Citizens has put Florida's residents at risk, because covering Citizens' losses after a major storm could result in assessments on *all* insurance policies (car, boat, etc.) for *all* Floridians, as well as businesses and nonprofits.

The low Citizens rates that are actuarially unrealistic also have encouraged development in areas where it shouldn't take place. In some cases, people build where there is every expectation of devastation from a storm. In others, the problem is development on vulnerable barrier islands that, if left untouched, actually could serve as a buffer from the wind and surge of storms.

Tied to the problem of Citizens is the Florida Hurricane Catastrophe Fund, which is in essence the state's own reinsurance company.

The purpose of reinsurance — which is insurance purchased by insurance companies — is to spread the risk. But when Florida's CAT Fund takes on increased risk, the burden gets shifted back onto Floridians.

Florida needs to determine the honest cost of property insurance — and then deal with it.

In 2011, there were reports that Gov. Rick Scott had the goal of killing Citizens. That's too extreme, and nobody is seriously proposing that. But weaning Floridians off of Citizens Property Insurance Corp. won't be easy.

Some steps that could help, several of them proposed in a report by Associated Industries of Florida, include:

- » Shrinking the statutory obligation for the CAT Fund and encouraging the CAT Fund to transfer more risk out of the state.

- » Transferring Citizens' risk to the private market.

- » Requiring that Citizens' rates not compete with private insurers. Rate caps could be raised at a slower rate for less-affluent homeowners. In other words, return Citizens to being the "insurer of last resort."

- » Prohibiting Citizens from insuring new development in vulnerable coastal areas.

Put simply, we Floridians need to admit that we have a risk exposure that we don't want to pay for. We must accept the cost of living in paradise, and the insurance marketplace will determine what that price is.

Whatever solution legislators arrive at will be painful for some. But having the majority of residents subsidize those who can afford to pay is not the solution.