



Steve Pociask: Citizens insurance subsidy should stay in Florida

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What do the Principality of Monaco, the Grand Duchy of Luxembourg and the Principality of Liechtenstein have in common? Royal monarchies? Majestic wealth?

One thing in common is that some of these countries' residents own vacation homes here in Florida, and these homes are being subsidized by Citizens Property Insurance Corp., a state-run homeowners insurance company.

Here is the problem: Because Citizens is setting insurance prices below its costs, it needs to make up financial shortfalls by billing other Floridians who do not have insurance with Citizens, including renters, charities, automobile policyholders, boat and motorcycle owners, homeowners living inland and others.

And the subsidy is not just a few dollars.

At a recent Senate Banking and Insurance hearing, Citizens CEO Barry Gilway testified that only 10 percent of basic coastal homeowners insurance policies (termed HO3) were actuarially sound in 2012, and that Citizens' rates would need to increase by nearly 30 percent (excluding sinkhole policies) during 2013, in order to make up the difference.

The result of these predatory prices is that private insurers have left the coastal market and Floridians are on the hook to pay the difference.

While this is very bad for the 77 percent of Floridians who do not insure with Citizens, the Florida subsidy provides an oasis for wealthy foreign owners living in United Arab Emirates, Saudi Arabia and Kuwait, and is a warm and welcomed relief from the

Citizens customers living in Iceland, as well as the 20,188 Citizens customers living in Canada, according to Citizens' own data.

However, the cross-subsidy does more than help foreign owners. Citizens also subsidizes 166,000 customers living in other U.S. states. Moreover, according to a study just released by the American Consumer Institute, these subsidies tend to benefit the affluent at the expense of the less affluent. Why would we want to do that?

Florida's insurance public policy is in desperate need of reforms. Subsidies need to be reduced, and immediately for out-of-state policyholders, including the 10,859 Citizens customers who live in Georgia, 10,005 from Missouri and 24,908 from New York. If consumers are to be fully protected against major storms, Florida's public policy needs to encourage the private capital to come back into the state.

The good news is that the Senate, led by Banking & Insurance Chairman David Simmons, is currently taking a serious look at these reforms, and other Senate members are offering various ideas for consideration. The end result may be a fairer system for all Floridians which will provide more protection to those living on the coast. However, those Citizens customers with primary homes in China, Malta and the UK will have to shop for private homeowners insurance like most Floridians already do.

Steve Pociask is president of the American Consumer Institute Center for Citizen Research, a nonprofit educational and research organization. For more information, visit www.theamericanconsumer.org.