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Citizens role, risk must be reined in more

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Shielded from voters in an legislative session without a looming election, the Florida Senate is quickly moving on a bill that is aimed at further shoring up the finances and potential liability of Citizens Property, the state-run insurer of last resort that has grown into the largest policy underwriter in the state. While the bill currently in the Senate would raise a legislatively imposed annual rate increase cap from 10 to 13, opponents of the measure have been focusing on much higher rates increases for new customers, in some cases ranging from 60 to 137 percent higher than current new policy holders.

As we've stated before, Citizens has amassed an untenable liability exposure of more than $405 billion. Its 1.2 million commercial and residential customers have been paying below market rates that limit private insurer competition and shift the responsibility for buying property insurance from individuals and businesses to everyone else in the state collectively, regardless of their relative exposure to the threat of devastating hurricanes.

Citizens and the taxpayers who would be on the hook for hurricane taxes like the ones impose after hurricanes Andrew, Charley and Wilma have been fortunate to avoid any hurricane over the past seven years. That lull, which won't last, has enabled the insurer to amass reserves and spread risk through the purchase of private reinsurance "catastrophe bonds." Those factors lower the risk of Citizens having to impose hurricane surtaxes on policy holders. Additionally, Citizens' recent so-called "depopulation" strategy has resulted in the insurer shedding 277,000 last year, reducing the potential exposure to claims by $3 billion, according to the non-profit company. Citizens plans to drop 30,000 coastal wind-only policies this year.

The Senate bill also would limit the value of homes eligible for coverage from $2 million to $600,000. Currently, such luxury homes would be eligible for a Citizens' policy only if the owner was unable to secure a private-sector policy within 15 percent of the cost of a Citizens' policy.

Florida has learned the hard way that a dysfunctional private insurance market hamstrung by a low-cost government subsidized competitor puts taxpayers and policy holders at risk for costly surcharges. Most Citizens policy holders aren't even aware that they are on the hook for premium surcharges up to 45 percent of the cost of their premiums in the event of a hurricane. Private insurers can only impose surcharges of 2 percent. Such surcharges do not include additional emergency surcharges Citizens could impose or existing fees that go to the Florida Hurricane Catastrophe Fund (known as the Cat Fund) and the Florida Insurance Guaranty Association, the state-run company that pay liabilities when a private insurer becomes insolvent.

The complex Senate plan may not be perfect. It amends or creates more than a dozen state statutes. Even Gov. Rick Scott, who pressured Citizens' board into pursuing depopulation and risk transfer policies, has been careful not to endorse the bill, as his own 2014 reelection campaign draws near. Scott's governorship has been defined by difficult, often unpopular decisions. On Citizens, he has been right. If voters think the state should run an insurance monopoly with subsidized, actuarially unsound premiums that squeeze out private competitors and carry the threat of devastating emergency surcharges, they'll have their chance to be heard. Measures contained in the Senate bill reduce Citizens' role and risk. That's a good thing.