



Private reinsurers ready and willing to tackle Florida's hurricane risk

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Florida's insurance market has long been supported by financially strong, well-regulated reinsurance companies. Florida's unique hurricane risk does not scare away reinsurers, but rather Florida is seen as a place where every reinsurer in the world wants a piece of the action.

These companies compete vigorously for Florida's business, make Florida's risks more affordable by spreading them around the world, and constantly pursue innovation to make their products and services more valuable.

This year, as reported by market sources and trade publications like The Insurance Insider, alternative capital innovations pioneered by the Bermuda reinsurers who are part of the Association of Bermuda Insurers and Reinsurers (ABIR) have produced abundant reinsurance capacity for Florida by attracting new capital from pension funds and other investors. These investors are looking to earn a higher return from hurricane insurance risk-taking than they could from regular investments in stocks and bonds.

It's a good news story for Florida's consumers - financially strong, largely SEC-regulated global reinsurers distributing Florida's trillions of dollars in property insurance risk globally into capital markets. As a result, the price of Florida's private reinsurance declined in 2013, by 15 percent or more on average across the state.

In the last 20 years Florida's unique risk profile has led to lots of counterproductive regulatory red tape that has made it difficult for risk takers to privately insure hurricane risk - it's easier to take on Louisiana's risk in spite of Hurricane Katrina than it is to take on Florida's. Part of that self-inflicted wound has led to an overreliance on state-run insurance entities, which include Florida's Citizens Property Insurance Corp. and the Florida Hurricane Catastrophe Fund.

While some forward progress to reduce the financial and market risk for all Floridians was made during the 2013 state legislative session, Florida's elected leaders failed to heed the advice of public officials (including Cat Fund Chief Operating Officer Jack Nicholson) and missed the opportunity to take maximum advantage of the growing amounts of private capital interested in the Florida market.

Three months ago, Florida Insurance Consumer Advocate Robin Smith Westcott, who is responsible for representing Florida's policyholder consumers on property insurance matters, had the right message. She argued that the Florida Legislature should pass Cat Fund reform legislation this year, thereby reducing the risk of consumers having hundreds of dollars of post-event assessments tacked on to their insurance bills. She noted that legislators could do this and still see a decline in insurance prices because private reinsurance rates would more than likely decrease due to the amount of capacity in the marketplace. She

essentially correctly predicted what we now know to be the case after June 1 reinsurance contract renewals were completed.

The problem with overreliance on the Cat Fund is that it concentrates hurricane risk in the state, exposing all Floridians to the financial burden of covering claims. These claims end up being paid by issuing debt, which has to be repaid. Floridians repay the bond debt via special assessments or hurricane taxes, which are tacked on to nearly all insurance bills - for up to 30 years.

Furthermore, the Cat Fund's uncertain bonding capacity has and will continue to endanger Florida consumers by promising more in some years than can be delivered. The better alternative available to Florida policymakers is for the private reinsurers worldwide to bear this cost and, when there is a loss, their shareholders suffer, not Florida's consumers.

Florida's hurricane problem is not going away any time soon. Although policymakers didn't push legislation sponsored by Rep. Bill Hager and Sen. Alan Hays across the finish line during 2013 session, there is time next year to promote legislation that takes greater advantage of private capital. This will enable the government to be a better steward of the available public debt used to support the risk not transferred into the private sector. There is a purpose for a well-designed Cat Fund and Citizens Property to serve policyholders - but both entities today are overstocked with business that can find a home elsewhere and as a result reduce the hurricane tax threat for all Floridians.

The world's private reinsurers, including ABIR members which have a 100 percent track record paying Florida claims, will continue to be available to support Florida and its unique needs.

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