Florida Hurricane Crisis Coalition Interim Recommendations

The Florida Hurricane Crisis Coalition (FHCC) was created by Associated Industries of Florida (AIF) in August 2006. AIF reached out to its members, non-members, and other coalitions to work together on issues of mutual concern. The FHCC began meeting in early September 2006, and closely monitored the work of Governor Bush's Property & Casualty Insurance Reform Committee (PCIRC). FHCC's recommendations are based on the Committee's data and findings, input from many stakeholders, and the attached guiding principles adopted by FHCC. Selected as co-chairs of the FHCC were three individuals: John Sebree of the Florida Association of Realtors (FAR), Cecil Pearce of American Insurance Association (AIA) and William "Bill" Phelan of the Florida Health Care Association (FHCA).

First and foremost, the members of the Coalition recognize that the Florida insurance crisis did not happen overnight, and therefore, the problem cannot be solved overnight with one, "silver-bullet" solution. FHCA members firmly believe that Floridians need to understand that the cost of property insurance will not fall immediately. The preeminent concern for the business community is that our elected leaders take a long-lasting approach in providing for a viable, competitive, private insurance market. Such a market is essential to ensuring available and affordable property insurance.

Therefore, the FHCC recommends the Legislature limit its special session agenda to measures which will reduce Florida's exposure to hurricane damage and which will address the affordability of insurance premiums, such as the following FHCC recommendations.

I. EXPAND THE STATE'S MITIGATION PROGRAM FOR HOMEOWNERS

- Establish a dedicated funding source for homeowners' grants – A dedicated funding source that produces significant hardening of homes will send a consistent message to re-insurers and financial markets worldwide that Florida is committed to reducing exposure to hurricanes. A logical source for this funding is the Insurance Premium Tax. Under the existing program the Tax will annually provide approximately $400 million to fund grants for hurricane shutters, roofing tie-downs, and other hurricane protection improvements for up to 72,000 homes. Because approximately 17% of Florida's homes are built under the latest and strongest building code, mitigation is needed for over three million homes in the state's most vulnerable areas. In addition to the premium tax, FHCC recommends these other funding sources: available federal dollars; increased sales tax collections from hurricane rebuilding activities; and any monies made available from the Governor's annual state budget line item vetoes. FHCC further recommends that at least $500 million per year be dedicated for mitigation grants.

- Earmark 10% of the total mitigation funding for the existing mobile/manufactured home mitigation program – In addition to the benefit of reducing property loss, this program helps to maintain affordable housing in the state. Mobile/manufactured homes make up approximately 10% of the state's existing housing inventory.

- Create a non-profit mitigation entity – A non-profit entity should be created to administer the mitigation program and to better facilitate the use of public and private or corporate contributions for mitigation efforts.

- Provide free home inspections – As a mitigation incentive for homeowners, the state should pay for home inspections when homeowners apply for mitigation grants. Many homeowners may be more willing to spend personal money for mitigation as a result.

- Establish a voluntary uniform hurricane structure rating system for homes – The state should establish a uniform rating system for residential structures that would enable potential buyers to more readily recognize homes' resistance to hurricane damage. This potential increase in home resale value could be a powerful incentive for homeowners to harden their homes.

- License Home Inspectors and Mold Assessors – Create a regulatory scheme for the professions of home inspectors and mold assessors/remediators, including licensure and continuing education. The mitigation program, the insurance industry and homeowners rely heavily on these individuals in determining eligibility for grants and insurance premium discounts.

- Education of homeowners regarding the advantages of hardening homes – Public education is the most important component to the mitigation program. The public should be informed as to available insurance premium discounts and potential increased resale value, resulting from the hardening of their homes. However, the misconception that homeowners will recover dollar-for-dollar monies expended for home hardening through discounts on insurance premiums must be dispelled. FHCC recommends that the primary focus of homeowner mitigation education should be that the protection of families, dwellings and personal belongings is the most important reason for hardening homes.

Full implementation of mitigation measures have the potential to substantially reduce Florida's monetary losses and the human suffering due to hurricanes.

II. MAKE ADDITIONAL REINSURANCE COVERAGE AVAILABLE THROUGH FLORIDA HURRICANE CATASTROPHIC FUND (CAT FUND)

FHCC endorses the PCIRC's recommendation to continue the current CAT Fund coverage of $15 billion above the current $5.3 billion retention level, which all residential property insurers must purchase. Moreover, FHCC supports PCIRC's recommendation to authorize optional additional temporary coverage below the current retention level.[1] FHCC recommends that insurers who purchase this optional layer of CAT Fund coverage should be required to make a rate filing, and pass any savings from such purchase on to insureds. However, FHCC opposes mandating participation by insurers to purchase the additional, temporary coverage.

The CAT Fund has provided stability to the residential property insurance market by providing coverage which augments reinsurance available in the private market. It has been the CAT Fund's/State's intent to lower insurance premiums by charging reinsurance rates substantially below those charged by private reinsurers. For the 2007 storm season, the CAT Fund will have approximately $2 billion in cash from premiums collected for potential losses of up to $16 billion. For losses which exceed cash on hand, the CAT Fund is authorized to issue revenue bonds, which are funded by multiple-year assessments on property and casualty policyholders (other than workers' compensation and, until June 1, 2007, medical malpractice). The assessment base for the CAT Fund is approximately $33 billion. Annual assessments are capped at 6 percent of premium with respect to losses from any one year and a maximum of 10 percent of premium to fund hurricane losses from multiple years.[2]

PCIRC proposes three new CAT Fund programs for consideration by the Legislature: Lower Retention Option for Residential Insurers; Higher Limit Option for Residential Property Insurers; and, Coverage for Non-Residential Commercial Insurers. If all these programs are authorized by the Legislature, the CAT Fund coverage will increase from $16 billion to $33 billion, more than doubling the potential need for the CAT Fund to issue bonds for the payment of losses that could result from only one hurricane season. There is a tipping point where expansion of CAT Fund coverage will not help the insurance marketplace. Insurance companies and the financial markets realize that a $33 billion-dollar state bond issue is not feasible and the state would not be able to meet its obligations to property insurers. A $33 billion bond issue is more than three times larger than New Jersey's $10 billion bond issue to finance road projects, which is the largest state bond issue ever. To further put this issue into perspective, the existing total of Florida's state debt for roads, educational facilities, etc., is less than $20 billion.

FHCC strongly recommends that the Legislature authorize only the Lower Retention Option for Residential Insurers with loss-reserve funding, as discussed below.

III. ACTUARIALLY-SOUND PRE-FUNDING OF FUTURE HURRICANE LOSSES FOR WHICH THE STATE IS RESPONSIBLE

FHCC encourages the Legislature to weigh the risk of larger assessments/taxes on property and casualty insurance premiums and the ability to raise monies to pay losses through borrowing, should a catastrophic event occur, versus the need to stabilize premiums. Providing additional direct insurance and reinsurance without initial

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[1] See PCIRC Final Report, pages 47-50 for further explanation.
[2] Governor's Property and Casualty Insurance Reform Committee's Final Report, p. 48.

capitalization at below-market or actuarially-sound rates will greatly increase the possibility of additional debt and taxes on premiums.

Current law provides for assessment/taxes on property and casualty insurance premiums in excess of 50% per year to pay principal interest on bonds issued to fund losses of various state insurance entities. (See attached Authorized Taxes on Property and Casualty Insurance Premiums to Fund Deficits of Governmental Property Insurance Entities.)

IV. ALLOW FOR ADDITIONAL CONSUMER COVERAGE OPTIONS

FHCC recommends that consumers be allowed to choose coverage and deductible options which will reduce their insurance premium, such as:

- Allow insurers to offer deductibles of any amount in addition to the 2%, 5% and 10% deductibles that must be offered.[3]
- Allow insurers to offer policies that provide coverage only for the dwelling.[4]

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[3] Governor's Property and Casualty Insurance Reform Committee's Final Report, p. 105.
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