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Associated Industries of Florida



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Barney T. Bishop III
President &
Chief Executive Officer

September 7, 2006

The Honorable Toni Jennings, Chair
Property & Casualty Insurance Reform Committee
PL 05, The Capitol
Tallahassee, FL 32399-0001

Dear Lt. Governor Jennings,

On behalf of **Associated Industries of Florida** and our members, I wanted to express to you and the Property & Casualty Insurance Reform Committee our concern for a proposal before your committee that calls for the lowering of the retention level of the Florida Hurricane Catastrophic Fund (CAT Fund).

I believe that the current threshold for the CAT Fund is \$5.3 billion in cumulative losses before the funds are accessed by insurance companies. There is a proposal that suggest that the threshold be lowered to perhaps as low as \$3 billion. Were this proposal to be accepted this would further shift the financial risk of hurricane losses from private sector insurers to businesses and other insurance purchasers. Inasmuch as Hurricane Wilma, a Category 1-2 storm (the second most costliest hurricane in Florida history) had \$9 billion in insured losses, lowering the retention level will allow insurance companies to pierce the threshold much quicker which significantly elevates the potential for CAT Fund deficits, which in turn will be paid by taxes on Florida commercial insurance policies.

In 2004, the CAT Fund began with over \$6 billion in cash reserves, which took the fund over 10 years to accumulate. I know because I sat on the CAT Fund for six years as a Consumer Member appointed by then-Insurance Commissioner Bill Nelson. Unfortunately, the Fund completely exhausted all its cash and was forced to issue bonds to pay for the 2004 and 2005 hurricane losses. The state was then forced to impose a 1% tax on all property and casualty insurance premiums (except for workers' compensation and medical malpractice insurance) for multiple years in order to generate the necessary monies to pay the interest and the principal on the bonds. ***This tax is directly paid by insurance purchasers, not by insurance companies.*** We believe that lowering the Fund's retention level would greatly increase the likelihood of additional taxes being levied to fund future hurricane losses.

In addition, we are concerned that a lower retention will allow thinly capitalized property insurers to substantially increase their property insurance business in Florida, leading to potential additional taxes to fund losses incurred by insolvent insurance companies. To prove our point, one need only to look to June of 2006 when the state imposed a 2% tax on all property and casualty insurance policies (except automobile insurance) to cover outstanding claims for Poe Financial, whose insolvent companies are now being liquidated by the state.



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We respectfully urge the committee to consider carefully the potential impact of lowering the threshold of the CAT Fund and the potential negative impact such a move could have if it ever becomes necessary for any hurricane deficits to be funded through taxes (assessments) on commercial property and casualty insurance policies. In light of the fact that CAT Fund deficits can be assessed on three accounts, up to 10% each (for a total tax of 30%) in a worse case scenario, this could have a devastating impact on Florida businesses and our economy.

We appreciate this opportunity to share our concerns with you and the committee. If I can be of any further assistance, please contact me at my office at 224-7173.

Sincerely,

Barney T. Bishop III
President & Chief Executive Officer

cc: AIF Board of Directors
Members, Property & Casualty Insurance Reform Committee