

Florida's Property Insurance House of Cards

By Gerald Wester

Florida's property insurance house of cards is on the brink of collapse with the state's "ace" — the Florida Hurricane Catastrophe Fund (Cat Fund) — facing an almost certain failure to meet its obligations.

After the 2004 and 2005 hurricane seasons, property insurance rates began to rise. To keep rates in check, the state dramatically assumed greater responsibility for hurricane losses by: increasing reinsurance coverage provided by the Cat Fund; authorizing the state's insurance company, Citizens, to unfairly compete with private property insurance companies; and shifting Citizens policies to newly formed Florida-only insurers or "take-out insurers." Today, approximately 30 percent of Florida homeowners' policies are written by Citizens at inadequate rates. An additional 30 percent of policies are written by "take-out insurers" whose rates do not reflect the true cost of reinsurance.

While the state has been successful in suppressing rates, there are two components that increase the cost of insurance in Florida. One is a rate hike by an insurer that is filed and approved by the Office of Insurance Regulation. Another is "hurricane taxes" or "assessments" imposed by Florida's three government insurance programs: the Cat Fund, Citizens and the Florida Insurance Guaranty Association (FIGA). "Hurricane taxes" imposed by these entities fund deficits resulting from 2004-05 hurricane claims which, in some cases, will continue for many years. Florida businesses and other insurance consumers have voiced outrage over the increased cost of insurance resulting from these taxes. Florida policyholders' frustration will continue to mount if Citizens and "take-out insurers" cannot promptly pay claims in the wake of a hurricane.

The state's success in suppressing rates and timely payment of claims by Citizens and "take-out insurers" hinges on the financial viability of

the Cat Fund. Citizens and "take-out insurers" rely heavily on Cat Fund reinsurance reimbursement in setting their rates and for their claims-paying capacity. The 2007 Legislature mandated insurers and Citizens reduce rates to reflect savings realized through the purchase of expanded Cat Fund coverage priced substantially below similar coverage provided by private reinsurers. Most of the rate reductions from the 2007 reforms are due to the expanded Cat Fund coverage, which the state cannot fund in today's economic downturn.

For 2009, the Cat Fund lacks the liquidity (cash and bonding capacity) to meet its maximum potential obligation of \$28 billion to reimburse Citizens and property insurers. The Cat Fund staff and financial advisors are projecting a nearly \$19 billion potential shortfall. The inability of the Cat Fund to fully meet its obligations following a major hurricane or series of hurricanes will result in substantial delays, non-payment of claims and the financial failure of many "take-out insurers." FIGA will assume responsibility for paying claims of insolvent insurers. In addition, Florida businesses and other policyholders will be responsible for funding losses through Cat Fund, Citizens and FIGA-imposed "hurricane taxes" in excess of 40 percent on all their property and casualty insurance premiums.

The state has created a dilemma— a potential financial collapse versus increasing homeowners' property insurance rates. The most popular response among the state's executives and lawmakers to this dilemma is a "federal bailout." AIF's response is to reduce Florida's reliance on the Cat Fund and protect properties against losses from hurricanes. ■

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