



# Florida Hurricane Crisis COALITION

Special Session  
Recommendations  
January 16, 2007



# Florida Hurricane

## About FHCC!

AIF created the business coalition — *The Florida Hurricane Crisis Coalition* — to address the increasing cost and decreasing availability of property and casualty insurance in this state. We have developed this Coalition to help find solutions to address the property insurance crisis and help Florida's business community. We believe, it is time for the business community to engage in this very important issue, because we believe the problem can be addressed, however, we realize the answers will not be quick, easy or cheap.

AIF reached out to its members, non-members, and other coalitions to work together on issues of mutual concern. Members of the Coalition include representatives from many companies, associations and other coalitions across Florida. They include builders, realtors, manufacturers, retail, contractors, health care providers, developers and insurance companies.

The three Co-Chairs of the Coalition are: Cecil Pearce of the American Insurance Association (AIA), Bill Phelan of the Florida Health Care Coalition (FHCA) and John Sebree of the Florida Association of Realtors (FAR).

### Principle #1:

Word for the Day: *Truthfulness*

Be very clear about the difficulty in funding Florida's future hurricane losses and potential impact of reform proposals, so as not to create unrealistic policyholder expectations as to premium savings.

### Principle #2:

It is better to pay for hurricane risk with private sector capital than to finance it with public debt. Paying for potential hurricane losses through premiums on the front end promotes homeowners choices; taxing for actual hurricane losses through assessments on the back end restricts those freedoms.

### Principle #3:

Allowing the free market to operate and competition to work are the best ways to make property insurance more available and affordable.

Insurance rates should be adequate to cover the risk. Premiums must be based on sound actuarial science. Over-regulation and artificial suppression of rates stifles competition and leads to unstable price fluctuations.

### Principle #4:

If greater government intervention is necessary to make hurricane insurance available and affordable, it should be developed and evaluated under these goals:

- The intervention should be the least intrusive possible to the private insurance market;
- It should be limited in duration to the need;
- It should be cautiously implemented and carefully regulated.

### Principle #5:

People have a right to live where they choose, but they do not have the right to expect others to subsidize their choices.



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# Crisis Reform Guiding Principles

## Principle #6:

The state responsibility to assure that coverage is available does not include the responsibility to provide subsidized coverage for investment and vacation properties at the same level provided for primary (homestead) residences.

## Principle #7:

The state has a responsibility to continue non-subsidized coverage for insurable homes and other properties which are unable to find coverage in the private market.

## Principle #8:

When necessary to protect the safety and security of its citizens, government must act. Government should promote the following objectives:

- Fortifying one's home against potential hurricane damage is the single most direct measure to lower the cost of homeowners insurance. Government has a valid role assisting homeowners who take personal responsibility to protect their homes.
- Government also has a legitimate role in protecting its citizens by enforcing a uniform and appropriate building code.
- Subsidies for fixed-income and low-income property owners who are at risk because of rising hurricane costs may be an appropriate short-term remedy.

## Principle #9:

Because changes to the structure and capacity of the Florida Hurricane Catastrophe Fund affect the private sector and have the very real potential to adversely impact Floridians through greater exposure to taxes or assessments, the Legislature should act cautiously. The FHCF should *only be expanded when private market alternatives are not available or have failed, or a crisis in the marketplace has occurred.*

- Any expansion of coverage to the FHCF should be fair and available to all participating insurers. Providing the expanded coverage

only to selected groups of insurers will ultimately dilute benefits for all participants.

- If the FHCF is expanded to take care of a market crisis and the expanded coverage is available to all participating insurers, the additional coverage should be priced at "near" market pricing levels. This will allow only those who need the extra capacity to purchase it from the FHCF. Private reinsurance will not be crowded out in the long run.
- Allow insurers to select just the additional capacity they need from the FHCF and what they need from the private reinsurance market. If coverage is available in the private reinsurance market incentives should not be provided to motivate insurers to purchase FHCF coverage.
- *Any expansion to the FHCF should be a temporary solution and should only be for 1 to 3 years.* At the end of this time, the expanded coverage should not be available unless re-enacted by the Legislature for another temporary time period.

## Principle #10:

Policy solutions should come with a comprehensive and comprehensible plan for implementation that Floridians can understand and should include: what their responsibilities are, what the responsibilities of their insurance company are, and what their government will do.


There must be a sense of shared responsibility to solve the hurricane crisis. This means that policyholders, builders, insurance agents, insurance companies, Citizens, lenders, real estate professionals, governments at all levels, tourism officials and others must share in the solution.

## Principle #11:

Reducing taxes for homeowners allows them, and not the government, to decide how to spend their money in insuring and protecting their homes. Non-insurance remedies, such as property tax relief, should be considered as alternatives that can reduce the cost of owning a home in Florida.

# Florida Hurricane Crisis Coalition

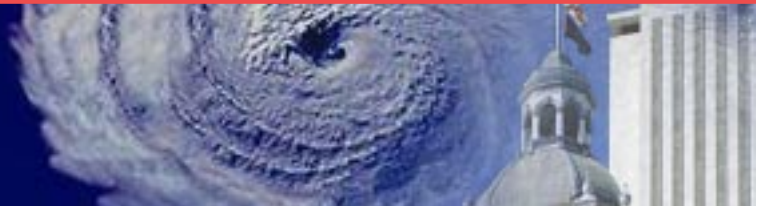
The State pays for insurance losses through four funding mechanisms. In a worst case scenario, each of these funds would be subject to post-hurricane assessments, totaling as much as 84% in additional taxes on our insurance policies. Florida's property owners will become responsible for paying off the state's enormous debt.

		Maximum Potential Assessments
<b>Authorized Taxes on Property &amp; Casualty Insurance Premiums to Fund Deficits of Governmental Property Insurance Entities</b>		
<b>CAT Fund</b> <ul style="list-style-type: none"> <li>For deficits resulting from losses in any one year 6% on all property and casualty premiums except Workers' Compensation and Medical Malpractice</li> <li>Maximum of 10% for hurricane losses from multiple years</li> </ul>		10%
<b>Florida Insurance Guaranty Fund</b> <ul style="list-style-type: none"> <li>Regular assessment up to 2% for claims of Insolvent Insurers in any one year</li> </ul>		2%
<ul style="list-style-type: none"> <li>Emergency assessment up to 2% spread over multiple years for hurricane claims of Insolvent Insurers in any one year if regular assessment is insufficient</li> </ul>		2%
<b>Citizens</b> <ul style="list-style-type: none"> <li>Regular assessment of up to 10% on premium for each of its three accounts to fund deficits in any one year</li> </ul>		30%
<ul style="list-style-type: none"> <li>Emergency assessment of up to 10% on premium or 10% of the deficit for each of its three accounts spread over multiple years to fund deficits in any one year (no maximum for cumulative years) if regular assessment is insufficient</li> </ul>		30%
<b>Commercial Property Insurance Joint Underwriting Association</b> <ul style="list-style-type: none"> <li>10% on Commercial Property Insurance premiums for deficits resulting from losses of any one year</li> </ul>		10%
		<b>Total Potential Tax on Policy = 84%</b>

This chart reflects the current ten largest government bonds. Florida already has two of the largest bond deals on record.

Ten Largest Municipal Deals Issued to Date Since 1980							
Par Amount	Sale Date	Issuer	Taxable/ Tax-Exempt	State	Issue Description	Series	Original Ratings (Moody's/S&P/Fitch)
\$10,000	6/5/2003	State of Illinois	Taxable	IL	General Obligation Bonds	Series of 6/03	Aa3 / AA / AA
\$7,921	5/6/2004	State of California	Exempt	CA	Economic Recovery Bonds	Series 2004 A&B	Aa3 / AA- / A+
\$6,313	11/7/2002	CA Dept of Water Resources	Exempt	CA	Power Supply Revenue Bonds	Series 2002	AA3 / BBB+ / A-
\$3,750	10/23/2002	CA Dept of Water Resources	Exempt	CA	Power Supply Revenue Bonds	Series 2002	B&C A3 / BBB+ / A-
\$3,424	5/13/1998	Long Island Power Authority	Exempt	NY	Electric Sys General Rev Bonds	Series 1998 A	Baa1 / A- / A-
\$3,140	7/28/2005	Golden State Tobacco Sec. Corp	Exempt	CA	Tobacco Settlement Asset Backed	Series 2005 A	A3 / A- / A-
<b>\$3,050</b>	<b>6/28/2006</b>	<b>FL Citizens Prop Ins Corp</b>	<b>Taxable</b>	<b>FL</b>	<b>High Risk Sr Secured Rev Bonds</b>	<b>Series 2006 A</b>	<b>A3 / A+ / A-</b>
\$2,894	5/9/2002	Metropolitan Trans Authority	Exempt	NY	Transportation Revenue Ref Bonds	Series 2002 A	A2 / A / A
\$2,803	6/26/1997	New Jersey Econ Dev Authority	Taxable	NJ	State Pension Funding Bonds	Series 1997 A-H	A1 / AA / AA-
<b>\$2,800</b>	<b>7/20/2006</b>	<b>FL Hurricane Cat Finance Corp.</b>	<b>Taxable</b>	<b>FL</b>	<b>Extendible Floating Rate Notes</b>	<b>Series 2006 B</b>	<b>Aa3 / AA / AA</b>
<b>No financing larger than \$10 Billion has ever been done in the municipal market.</b>							

# Fact Sheet



## Insurance Premiums

**Fact** – The Florida Hurricane Crisis Coalition is absolutely concerned with ensuring all Floridians have access to affordable property insurance premiums. We want lower premiums as much as everyone else, but we also understand the solution is not that simple. The state cannot guarantee immediate premium decreases without triggering serious consequences that will result in additional taxes and assessments for Floridians. The bottom line, any rollback in rates may be partially offset by new increases.

## Who Will Pay the Debt?

**Fact** – If the state creates reforms that rely on expanding Citizens, Florida will be building a “house of financial cards”. When the next bad storm or hurricane season ravages our hurricane-prone state, Floridians will be faced with a massive state deficit. The end result will be further taxes on our personal and commercial insurance policies. Floridians will have to repay that enormous debt. Instead, we need a system to pre-fund future hurricane losses instead of one that funds losses with more state debt.

## Regulation of the Marketplace

**Fact** – If we create a climate of more regulations, forced rate rollbacks and mandates, we’re making it harder for insurers to do business here. Florida cannot afford to push out the very companies we need to insure our homes and companies. This will only make a bad problem worse.

Insurance companies no longer have to do business in Florida. They can go to other states where their risk is decreased and the regulatory environment is more conducive to doing business.

## Insurance Company Profits

**Fact** – While insurers made about \$2 billion in Florida last year, they still have to make up \$13 billion in losses from the hurricanes of 2004 and 2005. By the way, all of the money earned since Hurricane Andrew in 1992 was wiped out in the 2004 and 2005 hurricane seasons. The recent profits will help insurers replenish their reserves, critical in this hurricane-prone state.

## Long-Term Solutions

**Fact** – Focus on consumer-focused proposals such as expanding the mitigation program to help people harden their homes against storms, expand the state’s Catastrophe Fund and begin to pre-fund losses, allow consumers to choose policies with larger deductibles to save money on premiums, and provide additional protections for nursing home facilities.



## Special Session Recommendations

- Expand the State’s Mitigation Program for Homeowners
- Make Additional Reinsurance Coverage Available through the Florida Hurricane Catastrophic Fund
- Provide Actuarially Sound Pre-Funding of Future Hurricane Losses for which the State is Responsible
- Allow for Additional Consumer Coverage Options
- Protect Senior Citizens in Nursing Homes

The Florida Hurricane Crisis Coalition has compiled a series of key recommendations to be considered during the special session. The measures are consumer-oriented and fiscally responsible, with a goal is to bring long-term relief to Florida’s property owners through reforms that do not create the potential for enormous state debt.



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# Florida Hurricane Crisis Special Session Recommendations

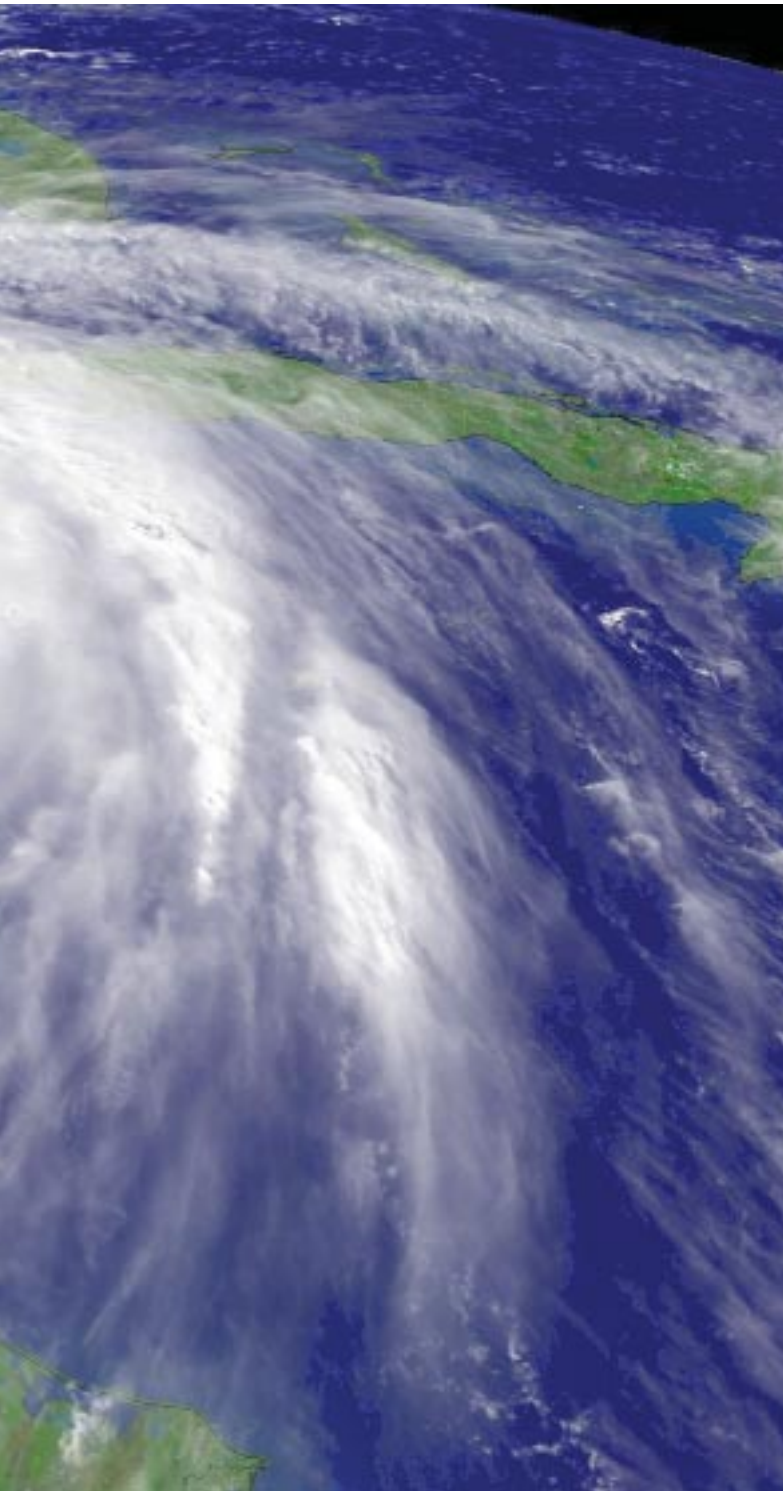
**T**he Florida Hurricane Crisis Coalition (FHCC) has closely monitored the work of Governor Bush's Property & Casualty Insurance Reform Committee (PCIRC) and bases its recommendations on the Committee's data and findings, as well as input from many stakeholders, and the guiding principles unanimously adopted by FHCC.

## VISION OF THE COALITION

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. 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.*



# is Coalition



## RECOMMENDATIONS

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:

### 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 be considered to boost the annual mitigation dollars beyond the \$400 million level: 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 a goal of \$500 million per year be dedicated for mitigation grants.
- *Earmark 10% (up to \$25 million) of the total mitigation funding for the existing mobile/manufactured home mitigation programs* — In addition to the benefit of reducing property loss, these programs help to maintain affordable housing in the state, for the one million people who live in them. Mobile/manufactured homes make up approximately 10% of the state’s existing housing inventory.



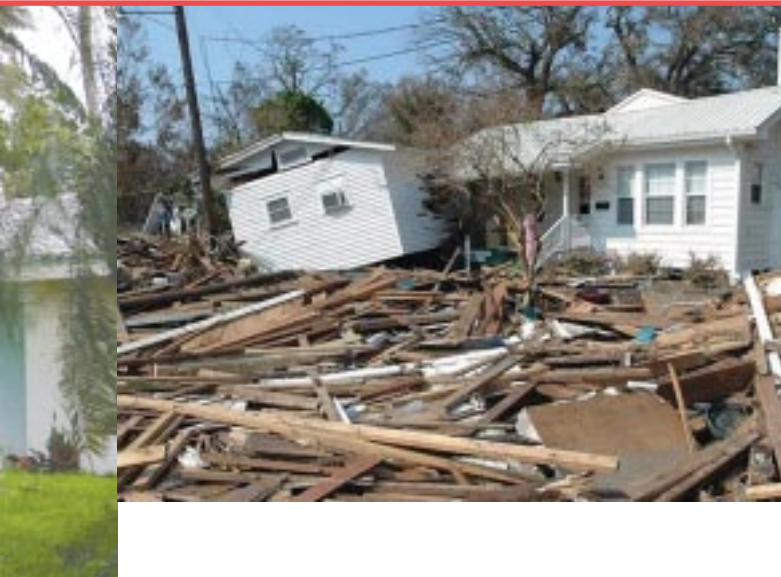


- ***Create a non-profit mitigation entity*** — A non-profit entity should be created to administer the mitigation program and to better facilitate the use of public and private or corporate contributions for mitigation efforts FHCC recommends a doubling of the amount of dollars available for low income housing mitigation and allow for minor house repairs necessary in order to accomplish the mitigation. Further, we recommend the creation of a MY SAFE HOME program whereby homeowners can utilize statewide associations (i.e., Florida Home Builders Association, Florida Manufactured Housing Association, Florida Roofing, Sheet Metal and Air Conditioning Contractors Association, Florida Wall and Ceiling Contractors Association, etc.) and home improvement retailers (i.e. Home Depot etc.) to advertise and market this program to the public to insure that homeowners will utilize the state grant dollars for mitigation. A consumer could obtain the listing

of a home inspector who could provide an inspection of the property and then produce a list of materials needed to help protect their home from future hurricanes. This might include products such as hurricane shutters, roof straps, and super strong garage doors. The policyholder could then go to a statewide association or a home improvement retailer which would offer the appropriate services for home installation or educational programs for do-it-yourselfers. This would allow the state to utilize the strengths of the private sector to advertise the state grant program, secure the home inspection, buy the materials, and provide contractors to perform the work, thus hardening more homes quicker than is occurring in the status quo. Of the \$250 million appropriated last legislative session, only about \$7 million has been spent so far, so private sector advocates can boost the numbers significantly.

- ***Provide free home inspections*** — As a mitigation incentive for homeowners, the state should pay for home inspections. 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 a 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 insurance requirement and continuing education standards. The mitigation program, the insurance industry and homeowners will have to rely heavily on these individuals in determining eligibility for grants and insurance premium discounts.
- *Educational Program For Building Code Enforcement* — Create an on-going mechanism for a well-established working relationship between consumers, licensees subject (BASF) to the Florida Building Code, and the Florida Building Commission in order to ensure that: the Florida Building Code actually performs as intended; coordination between property owners, the design and construction industries, and all levels of government exists at the best possible levels before and after a disaster; critical steps to mitigate future damages from storms and other disasters are possible and ways to achieve this are made available; meaningful notices, information, answers, and education are provided to licensees required to comply (architects, engineers, construction contractors, landscape architects, building officials, and interior designers etc.), practical and useful information on prudent and suitable methods of design and construction are available to all of Florida's consumers; and, there is outreach to industry through BASF, Inc. of mitigation programs and

opportunities; Further institutionalize the construction industries through the BASF, Inc. and the Disaster Contractor Network into the emergency management system; Develop relationship between the above groups and the insurance companies to distribute mitigation information; and, most importantly assure financial resources are provided.

- *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.
- *Citizens Mitigation Requirement* — Require Citizens' policy holders to harden their homes in compliance with standards and within timeframes established by Citizens' board in order to maintain eligibility for coverage.

Full implementation of mitigation measures has 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 CATASTROPHE FUND (CAT FUND) UNDER CERTAIN CONDITIONS**

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. The Coalition also supports PCIRC's recommendation to authorize optional additional temporary coverage below the current retention level.<sup>[1]</sup> 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 its 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 maxi-

imum of 10 percent of premium to fund hurricane losses from multiple years.<sup>[2]</sup>

PCIRC proposed 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. Unfortunately, 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 Illinois \$10 billion bond issue to finance road projects, which is the largest state bond ever issued. To further put this issue into perspective, the existing total of Florida's state debt for roads, educational facilities, etc., is now less than \$20 billion.

FHCC strongly recommends that the Legislature authorize only the voluntary 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 capitalization at below-market or actuarially-sound rates will greatly increase the possibility of additional debt and taxes on policyholder premiums. Current law already provides for assessment/taxes on property and casualty insurance premiums in excess of 80% per year to pay principal interest on bonds issued to fund losses of various state insurance entities. (See chart on page 5) Authorized Taxes on Property and Casualty Insurance Premiums to Fund Deficits of Governmental Property Insurance Entities.)

To reduce the State's exposure and reliance on debt to pay claims and associated taxes or assessments to repay debt, FHCC recommends:

- Citizens charge actuarially-sound rates.
- CAT Fund charge near market rates for any new reinsurance coverage provided insurers.
- Citizens offer only a basic policy excluding coverages not related to repair of dwelling, such as pool structures and fences.
- Citizens, in the coastal high risk areas, only offer "wind only" policies where coverage for other perils (i.e. fire, theft etc.) is available by the private market.

#### 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]

#### V. PROTECT SENIOR CITIZENS IN NURSING HOMES

Given the number of residents who are in nursing home facilities, and the significant rise in the cost of insurance, nursing homes must have the ability to offset the cost of property insurance. The Agency for Health Care Administration (AHCA) should amend the Florida Title XIX Long-Term Care Reimbursement Plan to allow for interim rate adjustments for nursing homes to reflect the annual increases in the cost of property insurance.

[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.

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

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

## CONCLUSION

There will be many different proposals offered for the coming special session and regular session of the legislature. We urge caution on proposals that will unnecessarily raise the cost of insurance company's doing business in Florida, without a commiserate positive impact on the availability and affordability of insurance. In fact, if the insurance marketplace is ever expected to become vibrant again, Florida needs less requirements or mandates, not more. The programs and initiatives that we recommend will incentivize insurance company's and reinsurers to continue to conduct business in Florida. Ultimately, if we do not accomplish that goal, anything else attempted will simply exacerbate the problem.

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information on this  
issues, visit**

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