



Florida Hurricane Crisis Coalition Special Session Recommendations

Background:

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 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 attached guiding principles unanimously adopted by FHCC. The Coalition's co-chairs are Cecil Pearce of American Insurance Association (AIA), William "Bill" Phelan of the Florida Health Care Association (FHCA) and John Sebree of the Florida Association of Realtors (FAR).

Vision:

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.*

Recommendations:

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:

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.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 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

¹ See PCIRC Final Report, pages 47-50 for further explanation.

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 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 attached chart: 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.

² Governor's Property and Casualty Insurance Reform Committee's Final Report, p. 48.

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.

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.

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.