

“Hurricane Crisis” Reform Guiding Principles

By Rep. Don Brown

Principle #1: It is better to pay for hurricane risk with private sector capital than to finance it with public debt.

Discussion: 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. Accordingly, the use of private-sector resources to pay for hurricane damage to private property should be maximized.

Principle #2: Allowing the free market to operate and competition to work are the best ways to make property insurance more available and affordable.

Discussion: Insurance rates should be adequate to cover the risk. Premiums to protect a structure must be based on sound actuarial science. Over regulation and artificial suppression of rates stifles competition and leads to unstable price fluctuations ultimately hurting property owners. Florida can no longer tolerate keeping rates artificially low simply because it’s the most expedient thing to do.

Principle #3: If greater government intervention is necessary to make hurricane insurance available and affordable, it should be developed and evaluated under these goals:

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

Principle #4: People have a right to live where they choose, but they do not have the right to expect that others should subsidize their choices.

Principle #5: The state responsibility to assure that coverage is available does not include the responsibility to provide subsidized coverage for investment and vacation properties. (Homestead vs. Non-Homestead; \$1 Million Dollar Coastal Homes)

Principle #6: Subsidies for residential properties should be limited to primary residences and should not be permanent.

Discussion: This principle and the prior one are based upon the premise that if an obligation is owed to anyone, it is owed to helping Floridians insure the homes that provide shelter and the dwellings where they live with their families, rather than for properties that provide leisure or represent investment opportunities.

Principle #7: When necessary to protect the safety and security of its citizens, government must act. Government should promote the following objectives:

- A. 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 in assisting homeowners who take personal responsibility to protect their homes.
- B. Government also has a legitimate role in protecting its citizens by enforcing a uniform and appropriate building code.
- C. In addition, direct taxpayer 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 #8: 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 (assessments), the Legislature should act cautiously, judiciously and in accordance with the following guideposts:

- A. The FHCF should only be expanded when private market alternatives are not available or have failed, or a crisis in the marketplace has occurred.
- B. Any expansion of coverage to the FHCF should be fair and available to all participating insurers. [Only providing the expanded coverage to selected groups of insurers will ultimately dilute benefits for all participants.]
- C. 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. Also, private reinsurance will not be crowded out in the long run.]

- D. 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.]
- E. 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 #9: Policy solutions should come with a comprehensive and comprehensible plan for implementation that Floridians can understand and should include: (1) what their responsibilities are, (2) what the responsibilities of their insurance company are, and (3) what their government is going to do.

Discussion: 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 # 10: 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.