JOB ONE FOR THE NEXT CABINET:
REBUILDING FLORIDA'S PROPERTY INSURANCE MARKET

John Rollins*

As Floridians make our voting decisions in electing a governor and all of the state's Cabinet posts, we shouldn't be shy about asking each of them how they plan to fix a property insurance market that is now needlessly unstable, could expose our next generation to tens of billions of taxpayer debt, and is further handicapping our already-ailing economy. This ***ConsumerGram*** *reviews what has gone wrong in Florida and what policy steps the new cabinet needs to take to fix these consumer problems.*

How did we get here?

The eight 2004-05 hurricanes impacted every part of Florida and property insurers paid over $35 billion in claims to spur the recovery. Afterward, rather than work with insurers to moderate the need for higher rates, state leaders chose to engage in harsh populist rhetoric, punitive regulatory and legal action toward targeted brand name insurers, and sweeping mandates for unwarranted rate reductions and unverified wind loss mitigation credits. They expanded taxpayer risk with a bailout and rate freeze for Citizens Property Insurance

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Corporation - a "public option" competitor with subsidized prices - and an expansion of the Florida Hurricane Catastrophe Fund, a backup fund supporting insurance companies. Meanwhile, they recruited small new Florida-based insurers with more taxpayer capital, despite an environment set up for failure, and liberalized claims laws to encourage an army of free-riding attorneys and public adjusters to intervene in standard two-party insurance contracts.

The experiment has failed, and we are worse off. Look at the facts since the last Cabinet was sworn in:

- Insurers are backing over $200 billion more in statewide property values for about $2.4 billion less premium, due chiefly to two factors – across-the-board rate rollbacks in 2007 and 2008, and mandated credits for wind loss mitigation which are often not scientifically supported and sometimes fraudulently obtained. You may think suppressed premiums are a good thing – until you get your nonrenewal notice or deal with a state agency to get your claim paid. Over a half-dozen companies have already gone bust in the past two years.
- Financially strong, well-known insurers are saying "no thanks" to our business and steadily leaving Florida, shedding almost 700,000 property policies with more nonrenewals to come.
- Local alternatives, some backed by the state start-up fund of $250 million, have picked up the slack, writing over a million new policies. Many are well-run but most are unfamiliar to consumers, have limited capital, and rely heavily on up to $23 billion from the Cat Fund, plus one-year private reinsurance deals, to back their promises. If reinsurance prices spike, maybe due to a quake halfway around the world, watch out.
- Insurers large and small are posting continuing financial losses, due not only to declining premiums but rapidly rising costs. Dozens of insurers have recently secured double-digit percentage rate hikes, mostly to fund sinkhole attorneys and public adjusters exploiting Florida's unique claims laws requiring up-front payment of full replacement costs – of which they get a cut whether the policyholder makes repairs or not. They play, we pay.

- Taxpayers paid $715 million to directly bail out Citizens in 2006, and every home, auto, and business policyholder is still paying Citizens and Cat Fund "assessments" or hurricane taxes of 2.7% of premium until at least 2016. This is mostly to keep public adjusters well-fed as they continue to re-open 2005 storm claims.
- Citizens expands taxpayer risk with each policy it writes, as the gap between its legislatively capped rates and its exploding costs grows each year. By law, it takes nearly all comers at these inadequate rates, rather than serving as a last resort. Worse, it does not buy reinsurance, which would spread its hurricane risk to worldwide investors rather than concentrating it in Florida.
- To top it off, the unfunded risk taken by Citizens and the Cat Fund puts us one storm away from doubling the state's debt and passing $20 billion or more in economic burden to tomorrow's Floridians.

How Do We Fix the Problem?

Nearby coastal states also devastated by recent storms took a different path, and now have many strong insurance choices and sound consumer safety nets. Our market is failing because of bad public policy, not because of Mother Nature, a greedy insurance industry, or any other scapegoat. The good news is that our new Cabinet can wield their influence over the market in several positive ways.

First, they approve all rules issued by the Office of Insurance Regulation. Urge them to review obsolete and excessive red tape keeping or delaying insurers from offering a range of fairly-priced policies that match the various types of homes and businesses consumers need to protect.

Second, they manage the Cat Fund. Commit them to ensure it promises only coverage it can provide, at an actuarially sound price, minimizing massive borrowing in stressed financial markets after major hurricanes.

Finally, they have a bully pulpit. Ask for their strong voice to support positive legislative actions which reduce cost drivers and streamline the regulatory process. Refocus government on consumer education and financial solvency, rather than price manipulation and deferral of hurricane costs.

The new governor and Cabinet can change course, adhering to the three core principles of fostering a stable and diverse set of insurance choices for consumers, spreading today's risk rather than burdening our children, and reducing free-riding activities driving up costs for all. Their legacy can be the sound, stable property insurance market which underpins the future economy that Floridians deserve.

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