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INSURANCE

The crisis at hand: covering Fla. homes

Florida's insurance market is facing a crisis, perhaps greater than after Hurricane Andrew. Lawmakers are scrambling to find short- and long-term fixes.

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Home insurance rates are going through the roof. Insurers are dropping hundreds of thousands of policies. The state-run insurer of last resort is deep in the red, and so is the state's hurricane catastrophe fund.

Nearly 14 years after Hurricane Andrew left Florida's insurance industry in tatters, the state is facing another crisis that, by many measures, is worse.

With only three weeks to go in the Florida legislative session, lawmakers are making a valiant effort to come up with fixes. A consumer group wants the state to be the windstorm insurer, and there are calls for a national catastrophe fund.

It's time for "tough medicine," Senate President Tom Lee said.

Most remedies would mean higher costs for South Floridians already squeezed by soaring prices for gasoline and housing at a time when wages are stagnant.

For many homeowners in Broward and Miami-Dade counties, insurance bills have doubled in the past five years. In 2005, 41 companies requested rate hikes; so far this year, 10 insurers are seeking average increases of 20 percent to 92 percent.

"Right now, we have a crisis of affordability and availability," said Hialeah Sen. Rudy Garcia, who leads the Senate Banking and Insurance Committee.

Worried that homeowners may be forced to choose between insurance and other necessities, lawmakers have started to soften on using sales taxes generated by hurricane rebuilding efforts to help shore up Citizens Property Insurance, the state-run insurer that is estimating its 2005 deficit at \$1.7 billion, and the Florida Hurricane Catastrophe Fund, a reserve for insurance companies that expects to be \$1.35 billion in the red.

"This is not a bailout of Citizens, it is common-sense relief for Florida's hard-hit homeowners," said Tom Gallagher, Florida's chief financial officer.

Gov. Jeb Bush, who had been against the idea just a few weeks ago, is a supporter. Speaker of the House Allan Bense likens it to "a tax cut" for maxed-out homeowners.

Indeed, homeowners already are making up a \$516 million shortfall for Citizens from the 2004 storms. That amounts to a 6.8 percent assessment -- or \$68 per \$1,000 of annual insurance premium.

To cover the 2005 losses, add another surcharge that could reach 20 percent. For a homeowner who has a \$3,000 premium with any home insurer, the two surcharges could add up to an \$804 hit.

As the House and Senate take up the insurance bills Monday, it's likely that lawmakers will ask for about \$750 million of the extra revenue to go toward covering Citizens' deficit.

An additional \$50 million could be set aside in a low-cost loan program to help Floridians fortify their homes against future storms.

Any relief for Florida homeowners is welcomed, but it isn't a cure-all.

The insurance industry is in such dire condition because the state was walloped by eight massive storms in a little more than 14 months. That sequence of punches wiped out insurers' capital. The four hurricanes in 2004 racked up nearly \$20 billion in claims paid by insurers. Last year, four more, including Hurricane Wilma, cost insurers almost \$10 billion.

After the 2004 hurricanes, investors and parent companies added more than \$1.2 billion to keep operations solvent for at least 17 Florida-based insurers, including Allstate Floridian, State Farm and Nationwide of Florida.

Now staring at the 2006 season, less than seven weeks away, some insurers are scrambling to shore up their finances yet again.

Without sufficient capital -- essentially money reserved to pay future claims -- there are few options for insurers: Raise rates to build capital more rapidly, borrow money and pass the costs on to consumers, write less business, or cease operations in Florida.

"The risk is so much greater now," said George Grawe, general counsel for Allstate Floridian, "because there is no capital in this state" for insurers.

Hurricane Andrew in 1992 took Florida's insurers by surprise because they were not set up to handle a catastrophe of that magnitude.

Since then, insurance companies have put mechanisms in place to deal with major storms, such as adding adjusters and mobile assistance centers to help policyholders and improving claims handling and tracking.

But the crisis is worse this time because companies are tapped out. Also, the state's economy and population are larger, and consequently, the need for insurance coverage is greater.

As a consequence, 22 insurers have dropped more than 560,000 policies or are refusing to write new policies. That is forcing many homeowners into Citizens.

Meant to be a last avenue for insurance, Citizens is on the verge of becoming the state's largest insurer of houses, apartments, mobile homes and high-rise condo buildings.

ISSUE OF NONRENEWAL

No wonder homeowners like Karen Drouin of Miami Lakes are miffed.

Her insurer for nearly 10 years, Vanguard Fire & Casualty, won't renew her policy. Yet, she has never filed a claim and even paid for some repairs herself after Wilma.

So, why is Vanguard dropping her policy? The company is reducing its exposure in Florida because of the risk.

"It's more than a little frustrating," said Drouin, who shopped around for another company to cover her town house. She found only one, besides Citizens.

Another big problem is that some smaller companies still willing to operate in this state are having a hard time finding reinsurance -- that's insurance for insurers to help cover claims after a catastrophe.

Without the reinsurance, these insurers might have to cancel some policies, leaving homeowners without insurance as the hurricane season begins, or they could cease operations in Florida.

Some industry officials and lawmakers advocate allowing these smaller firms to buy more of the \$15 billion of available reinsurance at an affordable rate from the state's catastrophe fund.

But some larger insurers oppose the idea because they fear that there would be less coverage for other firms to buy.

"It's not like there is a good choice out there," said Kevin McCarty, the state's insurance commissioner.

He added that these firms need to line up reinsurance coverage before the hurricane season starts June 1.

Meanwhile, Sen. J.D. Alexander of Lake Wales has long advocated allowing the catastrophe fund to build its reserves more rapidly by charging insurers more for its reinsurance. The insurers would pass on the cost to their policyholders.

"The Legislature hasn't wanted to go along with it because it would push up rates," said Mark Delegal, a lobbyist for State Farm.

Lawmakers also are looking at ways to reduce exposure for Citizens.

About half of its 800,000 policies are in high-risk Miami-Dade, Broward and Monroe counties.

OPTIONS CONSIDERED

Limiting the number of high-value homes covered by Citizens is one option. The Senate bill would require these homes to pay a 25 percent surcharge; coverage would be eliminated in five years.

A similar bill in the House would push these homes valued at more than \$1 million out of Citizens altogether, requiring them to get coverage in the more expensive surplus-lines market.

Vacation homes also would pay extra for Citizens' coverage under these bills.

Although these proposals would reduce Citizens' exposure, they are potentially painful for homeowners already facing more rate hikes this year.

For instance, in some parts of Broward, Citizens policies could increase an additional 67 percent. Now, lawmakers know they must make the hard choices -- and soon.

"Everything we do this session will have some impact on higher rates, less availability," said Lee, the Senate president. ``The sustainability of Florida's economic development is at stake."

STATE INSURANCE

A nonprofit group, Americans for Insurance Reform, has another approach in mind: The state should provide all windstorm insurance.

The group claims that a state-run system would provide lower prices and that coverage would be available to all consumers.

"This plan would eliminate both the profit motive as well as overreaction at times of crisis, lowering prices and assuring both stable prices and coverage," said Robert Hunter, director of insurance for the Consumer Federation of America, who helped author the plan.

Another idea gaining momentum: a national catastrophe fund. A number of lawmakers, insurers (including Allstate) and trade groups support the creation of a national risk pool to cover all forms of natural disasters.

Yet, Florida may be in a no-win situation if meteorologists' forecasts for another active hurricane season are accurate.

Said Lee: "No matter what reforms we put in, if the wind blows again this year, we probably didn't do enough."