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For Florida insurance woes, no shortage of suspects to blame

From climate change to lawmakers to a coastal development boom, why we are one active hurricane season away from a disaster that could doom the state's financial future?

BY BRANDON LARRABEE | STORY UPDATED AT 1:49 AM ON SUNDAY, AUG. 9, 2009

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TALLAHASSEE - On Aug. 12, 2004, Tropical Storm Bonnie slammed into the state south of Apalachicola. For the next two months, Floridians would see a break between storms of more than two weeks just once.

A day later, Hurricane Charley struck the Dry Tortugas. On Sept. 5, it was Hurricane Frances at Hutchinson Island. Hurricane Ivan made landfall in Alabama on Sept. 16, causing major damage in the Florida Panhandle; its remains crossed Florida again Sept. 20.

Five days later, Hurricane Jeanne struck Hutchinson Island, making 2004 the first year since 1885 that any state had been hit by four hurricanes.

The following year, it happened again. Between June 11 and Oct. 24, Florida was lashed by Tropical Storm Arlene, Hurricane Dennis, Hurricane Katrina, Tropical Storm Tammy and Hurricane Wilma.

"Nobody ever thought we could have four hurricanes in one year that could do damage," said Jim Massie, Florida counsel for the Reinsurance Association of America, an industry group. "Then, two years in a row we had four hurricanes in one year."

So premiums began to rise.

Politicians and regulators pushed back, authoring a complex set of government interventions that critics now say bought lower insurance rates at a steep cost - endangering the state's financial future.

If a major hurricane hit a large metropolitan area today, the state could be forced to boost taxes on insurance policies and take out billions in debt to cover shortfalls in taxpayer-backed insurance plans. Some doomsday scenarios include bankruptcy.

"They get a big hit, like Andrew or bigger, they're going to have to go to the bond markets at a time that it's not good to go to a bond market," said Walter Dartland, executive director of the Consumer Federation of the Southeast, a consumer watchdog group.

Funding that debt will be difficult, Dartland said. "They'll have to go across the board and raise taxes almost on everything."

Eventually, many believe, the danger will lift, with lawmakers passing a sweeping overhaul of state-backed insurance plans that should help keep the state solvent - if luck is on Florida's side while the changes take effect.

It could take six years to entirely wipe away billions of dollars of state obligations to back up insurance companies in the event of a catastrophe. And with premium increases in the state-backed property insurance program for consumers capped by law, it's unclear how long the state will have to increase rates before premiums can cover the program's responsibilities.

Recent light hurricane seasons aren't enough to shore up the programs' financial health.

There are other complications. State Farm Florida, the state's largest private insurer, has vowed to withdraw within a year and a half, saying the regulations it faces have squeezed its business beyond the breaking point. Nearly a million policy holders would be forced to find a new insurance carrier. Many could be pushed to buy more expensive policies or end up in the state insurance plan, further swelling the program's rolls.

Five years after Bonnie came ashore, Florida is still picking up the pieces.

Rising rates, public pressure

Flustered by the unusual years - and suspicious they were harbingers of a trend of increasing numbers of larger, stronger and more expensive storms - prices in the reinsurance market skyrocketed by 75 percent. As the name suggests, the reinsurance market is where insurance carriers who sell to the public go to purchase coverage for themselves in case of a catastrophe.

"They raised their rates dramatically in 2006, and the private carriers began to pass that on," said Sam Miller, executive vice president of the Florida Insurance Council.

It was too much for some. Dick Goodman, a writer and photographer who lived in Miami for nearly 30 years, said property insurance was a major factor in his move to Atlanta.

"I was approaching retirement, and I was looking at a \$3,000-a-year home insurance bill," Goodman said.

Candidates for public office took notice.

Elected in 2006, Gov. Charlie Crist rode into office at least in part on a wave of discontent with insurance companies. Some legislative candidates also teed off on an increasingly unpopular industry that was aggressively raising the costs of a product Floridians had to have in order to own a home.

In his inaugural address, the new governor declared property insurance reform to be "item one."

"I pledge the full resources of my office to work with the leaders of the House and Senate along with our new chief financial officer to bring our people the relief they need," Crist said.

But Massie said the governor and lawmakers were already too late. The market that was so volatile in 2006 had largely calmed down. Crist and lawmakers plowed ahead anyway.

"They really reacted to something that was no longer a problem. ... They should have left things like they were," Massie said. "They made it worse."

There were three major planks of the insurance reform undertaken in 2007: Boost the state-run Florida Hurricane Catastrophe Fund, allowing insurers to obtain cheaper reinsurance; freeze the rates of Citizens Property Insurance Corp., the state-run plan that had sparked outrage by announcing big jumps in premiums; and ease eligibility standards for Citizens.

The attitude toward insurers is clear, said Jeff Grady, president of the Florida Association of Insurance Agents.

"What they've done is they've decided 'To hell with them. If they can't provide it to us cheap, we'll provide it to us cheap.'" he said