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Insurance costs dropped after Crist-led reforms

By LLOYD DUNKELBERGER *H-T Capital Bureau*

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It is the biggest gamble of Gov. Charlie Crist's time at the helm of state government, one still condemned as reckless, irresponsible and a disaster waiting to happen.

Yet nearly three years after guiding a historic change to Florida's property insurance system, Crist says that he delivered "what the people deserved." And he says he has the numbers to prove it.

Indeed, average property insurance premiums in Florida have fallen 16 percent since the Legislature approved a Crist-led reform package in the governor's first month in office in 2007.

And Citizens, the state-run insurer that is now Florida's largest insurer, has seen its reserves more than triple, making it more able to pay off storm damages.

The changes are dramatic compared with what confronted the state just a few years ago, when runaway insurance costs were considered the No. 1 problem facing Florida.

From 2003 to 2006, average property insurance premiums nearly doubled, going from \$949 to \$1,635 annually, according to the state Office of Insurance Regulation.

More double-digit increases were forecast in 2007 and beyond as insurance companies sought to make up for nearly \$40 billion in losses from eight hurricanes and four tropical storms that hit Florida in 2004 and 2005.

Action by Crist and the Legislature put the brakes on those increases.

But as Crist moves on to run for Senate in 2010, there is a sense in Tallahassee that the state's insurance problems were postponed, not resolved, and that Florida is still one storm away from disaster.

Critics say the governor's move to increase the size of the state Hurricane Catastrophe



HERALD-TRIBUNE ARCHIVE / 2007

Port Charlotte's Stan Whitney said he got rate relief from his insurer after Gov. Charlie Crist signed the bill at his home.

Fund and expand Citizens Property Insurance, the state-backed property insurance company that now provides coverage for more than a million Floridians because the state has not been hit by a major hurricane since 2005.

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If a Katrina-like hurricane hit populated Florida, it would result in losses that would have to be made up by tax dollars, or by hefty assessments on nearly all insurance policies in the state, including car insurance.

"Of course it will work as long as the wind doesn't blow," said Eli Lehrer, a researcher with the Competitive Enterprise Institute, a conservative group that advocates a free-market approach to insurance coverage.

Lingering issues

Florida reduced the cost of homeowners' insurance by increasing its Catastrophe Fund in 2007, by \$12 billion.

It used the fund to sell backup insurance, or reinsurance, to private insurers at much less than what they were paying on the open market -- a cost break that companies passed on to consumers.

But the catch was that the state was reinsuring the companies with money it does not have. The Cat Fund and Citizens would face a combined \$14 billion deficit if a 1-in-100-year storm struck the state, a recent state analysis showed.

"The state has no realistic way to pay off the obligations that it has taken on," adds researcher Lehrer.

Concerned about that liability, the Legislature last spring passed a bill that will reduce the state's Cat Fund by \$2 billion a year over the next three years.

The move will reduce the state's risk in event of a big storm. But it also will mean that insurers must get more of their backup insurance on the open market, driving up their costs -- costs they will pass one to consumers.

Half the 210 companies offering property insurance in Florida paid out more the first half of the year than they collected in premiums, according to state regulators.

That includes the state's largest private insurer, State Farm, which says its Florida subsidiary reported \$130 million in underwriting losses the first half of the year.

State Farm asked for a 47 percent rate increase to stay in Florida, and the Legislature passed a bill allowing State Farm and other companies to raise rates.

But Crist vetoed the bill and State Farm has since said it plans to pull out of the Florida property insurance market, leaving 770,000 customers behind.

The state is still negotiating with State Farm and may be able to strike a deal later this year. But whatever happens, the days of declining insurance premiums seem numbered.

Citizens itself has been granted authority to raise its rates 10 percent a year. Several

other private insurers are also asking the state to raise rates.

"Everybody is planning for rate increases," Peter Prygelski of 21st Century Insurance, the parent of Federated National Insurance, told the St. Petersburg Times.

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Remember Stan?

Crist's insurance initiative was aimed at Florida homeowners such as Stan Whitney, an 81-year-old Port Charlotte resident. Shortly after Crist's election, Whitney wrote the governor complaining that his property insurance costs had doubled from \$700 to \$1,400 for his modest concrete-block home.

Whitney, who became the face of the insurance legislation after Crist signed the bill at his home, said he got rate relief from his private insurer after the publicity and has since sold his home and moved into a condo, where he said the insurance costs are "affordable."

Interviewed last week, Whitney applauded the governor for his political gamble, but said he remains skeptical about the long-term impact on consumers like himself.

"I think he tried hard and I have to give him a super A for effort," Whitney said. "But I'm afraid the insurance companies held the upper hand."

Yet the biggest criticism of insurance reforms is that they put too much risk on the backs of taxpayers. Former state Sen. Steve Geller, D-Hallandale Beach, said that risk has to be measured against the probability of a once-in-a-lifetime storm like Katrina.

"The immediate, current benefits dramatically outweigh the risk of something occurring that is not likely to occur in the lifetime of anybody over 18," Geller said.

Further, Geller said the move to limit insurance costs proved to be an economic safety net as Floridians suffered financially in a recession that has left nearly 1 million without jobs and thousands of others with foreclosed homes.

"We've got a lot of people who are paying as much on their insurance or more than they are on their mortgages," Geller said.

Jack McCabe, a Deerfield Beach-based real estate economist, said the rate cuts and Citizens rate freeze have had a positive impact, although it was not likely to be huge.

McCabe said the concern may be if state officials loosen their grip on insurance rates, it could add to South Florida's economic problems, where there are already 200,000 home foreclosures this year in Palm Beach, Broward and Miami-Dade counties.

Are higher rates inevitable?

While some suggest Florida should ease restrictions on rate increases, state Insurance Commissioner Kevin McCarty has warned that giving companies more power to raise rates will not necessarily guarantee more coverage in the nation's most storm-prone state.

"When I pointedly ask industry representatives how much more business they would

write if they could get any rate they wanted, the serious answers I get back range from marginally more to none," McCarty wrote in the Insurance Journal earlier. "Again, because of the moderate to severe hurricane risk across the entire state of Florida, the risk of ruin from catastrophic loss outweighs any potential premium income in their management models."



As for State Farm's withdrawal plan -- which is now set for a December administrative hearing -- McCarty said the state was negotiating with the company and did not rule out the possibility of State Farm keeping some of its property business.

But he said if State Farm leaves, there has been "evidence of a significant number" of private carriers that could pick up that business, although some critics contend many of those policies could shift into Citizens, further increasing the state's potential liability.

In recent years, Citizens has had some success in shifting policies to the private sector. In 2008, for instance, Citizens officials touted the fact that the government-backed insurer moved 385,000 policies into the private market. With a little more than 1 million current policyholders, Citizens is about 250,000 under its high mark of 1.3 million policies following the 2004-05 storms.

McCarty said Florida's property insurance problems were not unique, with other coastal states dealing with major insurance carriers seeking to limit their coverage in storm-prone areas. And he, as well as the governor and other state officials, continue to lobby for a federal plan to back up storm coverage and other natural disasters.

"We need a national catastrophe plan," he said.

Meanwhile, Geller, the former state senator who helped write the original 2007 legislation, warned that state officials would be making a mistake in abandoning the reforms. He said it will only lead to higher insurance rates for Florida consumers.

Geller, who also supports a federal backup plan, said he opposes any effort to "weaken" the 2007 law, while acknowledging that lawmakers seem to be headed in that direction.

"I would caution them not to do what they're doing," Geller said. "But they're doing it."

This story appeared in print on page A1
