

Insurance Commissioner McCarty is Wrong In His Analysis of HB 1171 *“He Doesn’t Have it Right,” Think Tank Says*

by [Eli Lehrer](#)

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Washington, D.C., May 22, 2009—Analysts at the Competitive Enterprise Institute, a free market think tank with offices in Washington, D.C. and Tallahassee, today criticized Florida insurance commissioner Kevin McCarty’s recent letter urging the veto of HB 1171. The text of McCarty’s letter is available [here](#).

HB 1171—the “consumer choice” law—would reduce regulation on the rates that well-capitalized insurers are allowed to charge. This would encourage some companies that have threatened to leave the state to continue offering policies and remain in business in Florida.

“He doesn’t have it right,” says CEI senior fellow [Eli Lehrer](#). “This law would help consumers.”

[Christian Cámara](#), the director of the CEI insurance project’s Florida office, agrees. “Commissioner McCarty’s arguments against HB 1171 imply that consumers will be forced to pay unregulated rates for their homeowners insurance, which is simply not true. This bill does not force anyone to do anything,” said Camara. “On the contrary, it would give consumers additional choices for their homeowners insurance, and if companies operating under this proposal charge too much, consumers will have the choice to reject them. It goes to show that even ‘unregulated rates’ are regulated—by the free market.”

CEI’s analysis of McCarty’s letter follows.

McCarty: “HB 1A [which became law] in January 2007 yielded rate decreases on the average 15.9% statewide. Since that time, rates have remained relatively stable for most of our residents HB 1171 will reverse the trend begun by HB 1A.”

Analysis: HB 1A “reduced rates” only because Florida Citizens and the Florida Hurricane Catastrophe Fund—neither of them capable of paying the claims they could potentially receive—wrote enormous amounts of insurance and reinsurance coverage at lower-than-market rates. Major, established private companies like State Farm, Allstate, Nationwide, The Hartford, and USAA either filed for rate increases or significantly cut back on new coverage writing in the wake of HB 1A’s passage. Most Floridians receiving insurance from private companies paid more for insurance in 2007 than they did in 2006. Inland county residents, who tend to be poorer than those who live on the coast, actually saw their premiums rise on average. The “savings” resulting from the bill were a result of a transfer of risk from private companies and their owners to the state’s taxpayers. Quite simply, HB 1A wasn’t a good deal for anybody.

McCarty: “Florida has added 40 new property insurance writers with more than \$4 billion in capital since 2006.”

Analysis: The important question that needs to be answered, however, is how many of the companies actually write typical “homeowners insurance” policies, or HO-3s, which is what most banks require before they will write a mortgage. Most of the new companies that Commissioner McCarty invokes as proof of a healthy insurance market do not sell HO-3 policies for typical homes. Two, for example, are subsidiaries of a company already operating in the state and another focuses on writing insurance for high-end automobiles. In fact, only six new companies write new HO-3 policies, and only one of those—ASI Preferred Insurance Corporation—operates anywhere outside of Florida. The other five companies are Florida-only insurers that do not bring any outside capital into the state.

McCarty: “State Farm and other companies may actually use excessive rates to effectively non-renew policyholders under the ruse of consumer choice.”

Analysis: McCarty’s statement makes no sense. Under almost all circumstances, a rate offered under the mechanisms established in HB 1171 will be higher than a rate a consumer can find somewhere else and consumers will know that. Consumers who avail themselves of the mechanisms established in HB 1171 will be paying a premium price to stick with a company they know and trust. Nearly anyone who purchases a policy under these terms will be able to get a lower-cost policy through Florida Citizens or, perhaps, a competing private insurance company. The bill simply provides choice for consumers who want it.

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