

New insurers not much help to typical Floridian

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TALLAHASSEE — The influx of new property insurance companies that have added \$4.3 billion to the pool of capital available on the Florida market, consists mostly of so-called surplus insurance lines that typical homeowners can't use.

Gov. Charlie Crist touted the growth of Florida's private insurance market when he vetoed a bill last week that was designed to entice big-name insurance companies such as State Farm to keep writing policies by letting them charge much higher premiums.

In his letter explaining the June 24 veto, Crist suggested the state doesn't need State Farm because "Florida has added new property insurance writers and a significant amount of new capital" since 2006.

But what Crist didn't say, and what Insurance Commissioner Kevin McCarty has left unsaid when making similar claims, is this fact: 93 percent of the \$4.3 billion, or roughly \$4 billion, comes from unregulated, surplus line carriers.

These insurers typically write policies for unique, high-risk clients. Think liquor stores and industrial tankers, multimillion-dollar waterfront mansions, pricey condominiums, and baseball players insuring their pitching arms. Not the typical Floridian trying to insure a three-bedroom, two-bath house.

"I would describe it as the private sector's market of last resort," said Gary Pullen, executive director of the Florida Surplus Lines Service Office, a nonprofit association created by statute in 1998. "These tend to be very high-value dwellings or very low-value properties. There is something about the risk that makes them unacceptable to the standard insurer."

Supporters of the vetoed rate deregulation legislation say McCarty misled the governor by failing to explain the predominance of surplus lines in the new insurance market capital. Moreover, they say the rich presence of those surplus lines is proof that the state's hurricane-prone housing stock cannot afford to be without large, financially proven companies like State Farm.

"If that surplus line is being counted, then we have a real credibility problem in my view," said bill sponsor Rep. Bill Proctor, R-St. Augustine. "If they're not going to be helping the little guys with a small home in Ocala, how are they counting it? . . . I think that's misleading."

The legislation would have made it easier for big insurers like State Farm to raise customers' premiums, which are now subject to significant state regulation. State Farm executives say regulators are not allowing them to charge realistic rates that cover their potential losses. They have announced

plans to withdraw from the insurance market here within two years. The company insures more than 1 million Florida properties.

In May, McCarty wrote Crist a letter outlining his "concerns" about the legislation but never specifically requested a veto. The insurance commissioner cited the "40 new property insurance writers with more than \$4 billion in capital" that have helped take out more than 400,000 policies from the state-run Citizens Insurance, "reducing the state's hurricane exposure by more than 20 percent."

Of the 40 new companies, 14 are surplus lines companies, whose rates and policy forms are not regulated by McCarty's Office of Insurance Regulation. State law requires that a policyholder get three rejections from standard insurers before going to a surplus lines company.

Crist couldn't be reached for comment. OIR spokesman Ed Domansky said the fact that roughly 30 homeowners insurers entered the market over the past few years is proof the insurance market is improving.

"These new companies came here knowing of the risk," Domansky said, "but clearly they felt there is an opportunity here." He said the unregulated surplus line carriers play a key role — insuring what he called "high-dollar, high-value" properties like condominiums that previously had trouble finding coverage.

"The political reality no one wants to address openly is we're a hurricane-prone state," Rep. Proctor said. "We're probably one of the worse places in the country to insure and we've brought it on ourselves. You're just not going to have cheap property insurance here."

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