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## Property insurance: Disaster in waiting

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### HURRICANE SEASON

- The official season runs from June 1 through Nov. 30, peaking in September.
- The first 10 tropical storms in the Atlantic this year will be named, in order: Ana, Bill, Claudette, Danny, Erika, Fred, Grace, Henri, Ida and Joaquin.
- The list of names is repeated every six years, although the names of the worst storms are retired.

Source: *accuweather.com*

### Citizens

- Largest property insurer in Florida.
- Holds 20 percent of all homeowners policies and 60 percent of the risk.

Source: *Legislative committee report, freedomworks.org*

### Fast fact

**Losing proposition:** Forty percent of all residential property insurers lost money in Florida last year.

Source: *Florida Association of Insurance Agents*

If a hurricane hits this year, it may be financially devastating. Major insurance companies have left the state, unable to make a profit at the rates they are allowed to charge. The catastrophic fund and state-run "insurer of last resort" both are underfunded. In a three-part series, beginning today, the Times-Union analyzes the problems and suggests solutions.

Florida is struggling through a property insurance crisis of epic proportions.

The sobering facts:

- The risks are so great, and the regulated rates so minimal, that most major insurance companies have stopped selling policies here, leaving the state with mainly small companies that might not be able to meet their obligations if even one major hurricane hits.

- Most high-risk homes - those near the coast - are covered by state-run Citizens Property Insurance Corp., not out of choice but because no private company will take them.

- Citizens is essentially bankrupt. It has, The New York Times says, \$450 billion in exposure to loss and about \$3 billion in reserves.

- The separate Florida Hurricane Catastrophe (CAT) Fund deals in "reinsurance," minimizing risk by selling insurance to insurers. But it's woefully underfunded.

"The state was potentially on the hook for \$28 billion last hurricane season but had access to only about \$13 billion to reimburse insurers," a CAT fund official was quoted as saying. "The shortfall could be even bigger this year, up to \$18 billion."

If there isn't enough money, homeowners might not be paid for damages right away, if ever.

### Best case is unrealistic

The best case scenario is that no more hurricanes will hit the state for several years, until a lot more surplus funds can be amassed.

That's unlikely, for two reasons.

One is that we're in an era of high hurricane activity.

In fact, *sciencedaily.com* reports, "about twice as many Atlantic hurricanes form each year, on average, than a century ago."

Secondly, the state artificially keeps insurance rates low. And the result is that insurers make modest profits in good years, but suffer steep losses in bad ones.

During 2003, according to the Insurance Information Institute, a New York-based industry group, private insurers here made a \$1.76 billion profit - but lost \$9.3 billion the next year.

We could always hope that the hurricanes, when they do inevitably hit, don't do much damage.

But, given current weather cycles, that isn't realistic, either. Of the 10 most costly hurricanes in American history, the institute says, eight have hit in the past four years.

What caused this property insurance crisis? More than anything, it was bad policies spawned by good intentions.

At the time the federal government was trying to achieve affordable housing by distorting the market, Florida was seeking affordable insurance - not an easy task in the aftermath of Hurricane Andrew.

It did that by requiring private insurers to keep their rates artificially low, then - as a tradeoff - absorbing more of the risk itself.

At the same time, expensive housing was being built in coastal areas.

Since 2007, for example, more than 2,000 plush new condo units went up in South Miami Beach, according to the Insurance Information Institute.

The average price per unit - \$3.7 million.

It's nice that more people are able to enjoy breathtaking views of the ocean, sometimes from the 45th floor of a swank new condo.

But with private companies unable to assume those risks at the rates they're allowed to charge, Citizens, in most cases, has to provide the insurance.

A few old-timers still talk about the Great Miami Hurricane, which caused \$760 million worth of damage in 1926.

Given growth and inflation, if that same hurricane hit today, it would cost \$157 billion, said Don Brown, former chairman of the Florida House's Insurance Committee.

Within a decade, that cost would be \$500 billion, according to the Insurance Information Institute. That's a staggering sum the CAT fund couldn't even come close to absorbing.

Special assessments already are being levied, on car and property insurance, to build up the fund.

Think of how much those assessments would have to be raised to pay for a hurricane that destructive.

And the most maddening part, to many people, is that Citizens subsidizes its coverage of those expensive coastal condos with liability on everyone, including owners of more modest inland homes.

### Robin Hood in reverse

This takes from the poor and middle class - and gives to the wealthy. Even setting aside the equity issue, this is bad policy.