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Property insurance: Florida stands alone

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Fast facts
- Florida has two coasts and more than 1,000 miles of coastline.

- Florida has more than $2 trillion in hurricane risk exposure, more than any other state.

- Eighty percent of the state's exposure is in coastal areas.

Sources: Various

Huge exposure: Florida is only one of 50 states, but more than half of hurricane damage payments in this country comes here.

Source: Matt Carlucci, Jacksonville insurance agent

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. This is the second of a three-part series in which the Times-Union analyzes the problems and suggests solutions

Florida and Louisiana have something in common - a propensity to absorb the brunt of devastating hurricanes.

But they attacked the problem differently, and that - not surprisingly - yielded different results.

Louisiana isn't hit as often as Florida, but it has been hit - very hard, at times.

Katrina, which slammed into Louisiana in 2005, did $43 billion worth of damage, according to the Insurance Information Institute.

That's twice the cost of the next-most-costly hurricane ever in American history - Andrew, in 1992.

Florida leaves the market

Florida's strategy, basically, has been to keep insurance rates affordable in defiance of market forces.

That has meant restrictions on rate increases.

To make that palatable to private insurance companies, the state agreed to share the risks. That's the purpose of the Florida Catastrophic (CAT) Fund.

And to protect owners of high-risk homes, state-run Citizens Property Insurance Corp. was created as an insurer of last resort

It hasn't worked well. The CAT Fund is woefully underfunded - even though the state subsidizes it, oddly enough, with an assessment on car insurance premiums.

Hurricane season starts Monday, which means a major storm could hit any day. And when it does, analysts say, the CAT Fund won't have enough money to pay all of its obligations.

Contrast that to the situation in Louisiana.

In 2005, the year Katrina and Rita both hit, two companies carried 55 percent of the market there - State Farm and Allstate, according to a Southern Governors' Association study.

The insurance companies were in dire straits, paying $8 in claims for every dollar collected in premiums. They reacted by raising rates in coastal areas, often by 50 percent or higher.

Louisiana's better idea

Louisiana, however, didn't put itself at unnecessary risk to push premiums artificially low.

To the contrary, rate increases are automatically approved there unless disapproved within 45 days.

Nor did Louisiana allow its Citizens Property Insurance Corp. to become a major player in the insurance market. By requiring above-market rates, it kept Citizens an insurer of the last resort.

A Wall Street Journal editorial summed it up well:

"Louisiana has a thriving private insurance market, in part because regulators have let companies adjust their rates.

"By law, Louisiana Citizens cannot offer competitive prices, save in a few high-risk areas. From a peak of about 170,000 policies in 2007, it now holds about 130,000 (about what it had before Katrina) and is aiming to get below 100,000."

What a contrast.

Tomorrow: A better way.

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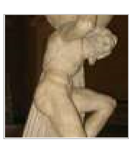

A pox on "Climate Change" Charlie
Submitted by John Galt on Fri. 5/29/2009 at 7:12 am
It would seem that Louisiana actually has some leaders who can think, instead of just take days off work to look at themselves in the mirror.

Charlie Crist has totally FUBARed Florida, and now he wants to get the really lucrative job in Washington.

A pox on him!

"Shrug"

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