opinion.
jacksonville.com

Property insurance: Use competition

STORY UPDATED AT 12:48 AM ON SATURDAY, MAY. 30, 2009

Hurricane damage
- Twenty percent of homes in Florida were damaged in the hurricanes of the 2004 season.
- There were $20 billion in insured losses, an average claim of $20,000.
- Experts say the best protection is to "harden" your home - mostly reinforce windows, shutters and garage doors.
Source: mysafefloridahome.com

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, ending today, the Times-Union analyzes the problems and suggests solutions.

Florida's property insurance system is a ticking time bomb, one that could wreak havoc on the state's economy when - that's when, not if - the next hurricanes hit.

This is because the state-run catastrophic fund, which shares property insurance risks with companies that sell policies here, is egregiously underfunded.

In a worst-case scenario, insured homeowners might face long delays in getting money to rebuild their hurricane-damaged houses - and all Floridians could be stuck with very high taxes or "assessments" to raise the needed money.

So, what's the solution?

Ideally, it would be to spread out some of the costs through a federal catastrophic natural disaster fund, similar to the federal flood insurance program.

It's doubtful that either of Florida's senators, or any of its House members, have enough clout with their colleagues to get the job done.

But California sometimes has earthquakes, so it would qualify for some of the help. And it's the home of House Speaker Nanc Pelosi.

She certainly has clout.

A few other possibilities, some better than others:

Harden housing: About 2.5 million homes in Florida cannot withstand a hurricane, says Associated Industries of Florida.

Provide better incentives to "harden" them with better windows, shutters and garage doors.

Bigger state role: Since insurance companies rarely accept high-risk homes, don't allow them to write any hurricane policies.

Instead, the Shield Our State Coalition suggests, funnel the hurricane portion - about half of the typical premium - into a new Hurricane Insurance Pool. That would better distribute the available pool of money for paying claims.

Less state involvement: Citizens, the state-run insurance company that is supposed to be for homeowners who cannot buy insurance elsewhere, carries more policies than any private company. Make it a true "insurer of last resort" again, by raising its rates.

Also, reduce the CAT fund exposure and allow private companies to increase their rates accordingly.

This is basically what happened in Louisiana.

"Deregulation does not mean that insurance companies will be unregulated," writes Associated Industries of Florida, which favors this approach.

"It simply means that we will develop a better regulatory landscape that will keep and hopefully attract other companies ..."

Deregulation makes sense.

Rates would go up at first, but - once insurance companies have adequate reserves to cover their risks - increased competition eventually would put downward pressure on them.

And the state wouldn't be obligated for so much potential debt.

People wouldn't like higher rates, of course. But a hurricane is going to cost Floridians in the pocketbook, whether the money is funneled through insurance companies or the state-backed CAT Fund.

A solution may be on the horizon, fortunately.

Gov. Charlie Crist on Thursday signed a bill ending the three-year "freeze" on rates charged to customers of Citizens.

As a result, according to The Palm Beach Post, rates could increase as much as 10 percent a year, until the system is "actuarially sound."

The bill also reduces the CAT fund risk to its pre-2007 levels.

The risk had been increased by $12 billion, to $28 billion. At the time, that was thought to be necessary as a means of making it financially viable for insurance companies to keep their rates relatively low.

The new law cuts the risk by $2 billion annually for six years, forcing companies to buy private reinsurance, which is more expensive.

The result will be higher prices for everyone's insurance - not just those with policies from Citizens.

That won't be popular, but it's needed to keep the system viable - and the state potentially from deep financial problems.

Even with this legislation, the state will be in trouble if hurricanes hit in the next few years. As more private companies come back to the state, however, fewer people will do business with Citizens. When that happens, and CAT fund exposure dwindles, the risk will diminish.

This new law will be controversial, of course. The state should watch the developments carefully and be ready to act if insurance companies gouge customers, as they almost certainly will be accused of doing.

But give the new law a chance to work. Don't water it down in the next legislative session.