Top 10

FreedomWorks Foundation

TOP 10 REASONS FLORIDA NEEDS REAL INSURANCE REFORM

By: Wayne Brough

1. Governor Crist's insurance reforms have been a failure that may cost Floridians dearly in the future. In one of his first acts after taking office, Gov. Crist launched a special legislative session to address rising property insurance in the Florida. Unfortunately, the legislation that passed has created an insurance market that does not work and has brought the state to the brink of financial disaster. A major storm could mean significant costs for consumers and taxpayers in Florida.

2. Consumer choice is disappearing in Florida's insurance market. Legislation and regulation have reduced the availability of insurance in Florida while increasing the state's financial risk. The state-run Citizens Property Insurance Corporation has become the largest insurer in the state as private insurers are abandoning their business in Florida. Increasingly, consumers are left with a choice of either Citizens or a few small insurance companies that most people do not recognize because price controls and other regulations have made it too difficult and too risky to do business in Florida.

3. Florida is chasing capital out of the state at a time when the insurance market needs more available resources. At a time when it is critical to attract capital to cover potential liabilities from storm damage, insurance laws are driving private insurers out of the state. Companies such as Allstate and Safeco found doing business in Florida untenable, and now State Farm, with over one million policyholders, is currently in the process of pulling out. A dysfunctional insurance market increases the financial burden on the state-run Citizens insurance company in the event of a storm, which may mean higher costs for all consumers in Florida.

4. Even though Citizens Property Insurance Corporation—the state-run insurance company—has become the largest company exposed to the greatest risk, its rates remain wholly inadequate to cover the costs of a major storm. Today, Citizens holds one in five of all the homeowners policies in Florida, representing 60 percent of the risk. The 2007 laws capped Citizens rates at an artificially low rate, which has attracted more customers and more risks for the state-run company. But with rates artificially reduced, paying claims after a storm will be difficult, and may even drive the company to bankruptcy.

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5. The Florida Hurricane Catastrophe (CAT) Fund is bankrupt and cannot cover the costs of a major storm. To make additional resources, or reinsurance, available to insurers in the wake of a storm, Florida created the CAT Fund, which is funded through premiums paid by insurance companies. Unfortunately, the fund currently faces a potential exposure of $28 billion, yet, by the state's own assessment, the CAT would be almost $15 billion short in the event of a major storm. Should a major storm hit, the CAT fund would need to raise additional resources in the financial markets. But in today's economic climate this would prove difficult at best. Indeed, the state believes it could only generate $3 billion through bond sales under current market conditions. If the funds cannot be raised, some claims may never be paid, with the state's analysis suggesting that within three to six months after a major storm, the fund would be exhausted.

6. Florida's consumers and taxpayers face substantial hidden taxes and assessments. Although price controls on insurance rates may seem like a benefit to consumers living in high-risk areas, they come with a price tag that will be paid by all Floridians. These costs will appear in assessments added to their insurance policies, and in Florida, three separate, but expensive, assessments may be required. The first assessment goes to the guaranty fund, which provides resources should one of the remaining private sector companies fail. The second assessment goes to Citizens to help cover their subsidized rates. And finally, the CAT fund may impose an assessment should it fail to raise the required resources in the bond market.

7. Price controls do not trump the laws of nature. Florida has been hit by nine out of ten of the most expensive hurricanes in U.S. history. With continued growth and development, the future storms may cause even more damage. Florida has the highest hurricane exposure of any state, with over $2 trillion at risk; coastal exposure accounts for almost 80 percent of the state's total exposure. Gov. Crist's insurance reforms targeted the symptom—high insurance premiums—while doing nothing to alter the underlying problem, which is the looming threat of hurricanes in highly developed coastal areas. Under-pricing risk does not make it go away; should 2009 have an active hurricane season, consumers and taxpayers could face significant costs to make up the shortfall of premiums that do not match the potential liabilities.

8. All Floridians are subsidizing the insurance of those who live in high risk areas. Artificially low rates in coastal areas increase the burden on all Floridians, raising insurance costs for those living inland where the probability of storm damage is considerably lower. While this is most obvious with respect to those in inland counties relative to those in coastal counties, it also holds true within coastal counties, where the costs of insuring more exposed properties is also borne by those who chose to build in safer areas. Moreover, artificially low rates encourage more development and growth in high risk areas, raising the costs of any future storms.

9. The federal government is in no position to bail out Florida in the case of a major storm. Many in Florida oppose higher rates, even though they understand that the current system cannot cover the costs of a major storm. They are banking on the federal government to bail the state out in the case of a crisis. Yet the nation's financial crisis should provide pause to think. The depth and breadth of the problems in the nation's financial sector would make if very difficult, if not impossible, for the federal government to provide meaningful financial assistance to Florida.

10. Current policies threaten Florida's economic future. Problems in the insurance market threaten both economic growth and jobs in one of the nation's fastest growing states. Faced with difficulties finding proper insurance coverage, many individuals and businesses may reconsider decisions to locate in Florida.

Coupled with the downturn in the housing sector—which hit Florida particularly hard—this could exacerbate the economic slowdown and delay economic recovery in Florida.