

## Despite fewer storms, property insurance continues to skyrocket

by HeraldTribune.com

Other than a dusting from Tropical Storm Ernesto, Florida has been spared so far during the six-month hurricane season that ends Nov. 30.

So will insurance rates start to drop, or at least level off?

Don't count on it, says Robert P. Hartwig, chief economist with the Insurance Information Institute.

Long-term forecasts still call for increased hurricane activity in the Atlantic basin.

"There is still great pressure on the insurance markets in Florida, and through much of the Southeast, because of the expectation that the next 10 to 20 years are likely to be above average," Hartwig said.

"If anything, 2006 may be the anomaly."

And Florida has been a long-term money loser for insurance companies, Hartwig said.

That is not good news for Sunshine State residents like those at The Inlets in Venice.

The condominium association's insurance premium is jumping from \$65,000 this year to as much as \$350,000 in 2007.

While the 221 homeowners there brace for the increase, association board president Elmer Day wonders whether windstorm insurance rates should still be skyrocketing while Florida enjoys a quiet hurricane season.

"So far this year, it looks very positive for the insurance companies not paying anything in terms of storm costs," he said. "It surprised us that they would try to recover their losses so fast."

Eight storms blasted the state during the past two years, causing more than \$38 billion in insured damage.

Property insurance companies responded by raising their premiums and cutting back on the number of homes and businesses they would protect.

From 1992 through 2005, homeowners insurers lost an aggregate \$13 billion. The average rate of return for those insurers since 1990 is negative 43 percent.

"Profits were swamped by the losses of Andrew and in 2004 and 2005," he said.

Many companies have set up separate insurance units in Florida, so-called "pup" companies.

Allstate Floridian and State Farm Florida may lose money, for example, but their parent companies report healthy profits.

Bill Newton, executive director of the Florida Consumer Action Network, has been wondering when insurers would stop raising rates ever since the National Hurricane Center lowered its storm estimate for this year.

"Since our windstorm premiums are based upon the risk of storms, and now the risk is lower, why aren't our premiums lower?" he asked.

"The insurance companies can't recoup past losses. The deal is for the future -- in this case, this year's hurricane season."

Other states not being hit

Insurance companies base their rates on the anticipated cost of claims losses.

Catastrophic risks like hurricanes or earthquakes drive those prices up. So do other rising costs such as labor, construction materials and litigation.

Companies also factor in their operating expenses, commissions they pay to agents and brokers, and a profit margin.

They make money on their underwriting gains -- when premium income exceeds claims and expenses -- and from their investments.

Not everyone has been hit with soaring insurance costs.

Consumers in states outside of coastal areas have seen their homeowners insurance rates rise at essentially the modest rate of inflation, Hartwig says.

Their commercial property premiums have declined to 10 to 15 percent over the past two years.

"In Florida, the risk is materially different," Hartwig said. "Insured losses are different, and the long-term outlook is materially different."

Allstate CEO Edward Liddy, whose company has hiked rates more than 50 percent while dumping 250,000 homeowners policies in Florida, said the average U.S. consumer will see little change in their insurance coverage.

"But if you live in Florida, it's going to be a very difficult situation in terms of the availability of insurance and

the price of insurance," he said recently.

More quiet seasons needed

A couple of quiet hurricane seasons could bring some stability to the state's insurance crisis, said Gary Landry, a spokesman with the Florida Insurance Council.

"The more we can distance ourselves from the huge losses that have occurred the last couple of years, particularly last year with Katrina, could have a real impact on a lot of these reinsurance costs that are driving up rates this year," he said.

The offshore reinsurance companies, hit with about half of last year's \$65 billion in hurricane losses, have doubled and tripled their prices.

The primary carriers, which buy reinsurance to reduce their financial risk, pass on those higher costs to their customers by raising premiums.

A lull in hurricane damage also would prevent the state-run Citizens Property Insurance Corp. from imposing another expensive assessment on homeowners, Landry said.

Citizens, the insurer of last resort, levied a 6.8 percent surcharge this year on all Florida homeowners insurance policies to recoup its losses from the 2004 hurricane season.

Another 2.07 percent fee is coming next year, along with a 1 percent surcharge for 10 years, to pay for 2005 claims.

Since rates will not stop rising, Landry suggests homeowners go for premium discounts with such measures as hurricane shutters and roof improvements.

The homeowners at The Inlets in Venice won't know for several months exactly how much their premium will cost.

Their agent has said the Citizens policy, which renews in January, could hit \$350,000. The association had initially budgeted for a 15 percent increase to \$75,000, said Day, the board president.

"It is hurting us. Some people are saying, 'Why don't we just drop the wind coverage and forget it?' If it keeps going up, it's more economical to take the risk than to pay the fees."

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