

Regulators Tangle With Think Tank Over Fla. Market Picture

by National-Underwriter

A conservative think tank report challenging regulators' picture of the Florida home insurance market is out of focus, according to the Florida Office of Insurance Regulation.

OIR was responding to the Washington-based Competitive Enterprise Institute, which challenged the import of numbers reported by the OIR.

The CEI had stated that the agency's report mischaracterizes the amount of capacity in the marketplace, but the OIR has responded that the CEI analysis focuses too much on traditional HO-3 homeowners policies and not on the full gamut of residential property.

OIR's numbers were contained in a report titled "Emerging Florida Homeowners/Property Marketplace," with lists and information on companies that have entered the Florida market since January 2006.

But CEI Florida Insurance Project director Chrisitan Camara criticized the report's findings, stating, "The claim of more than \$4 billion in capital and 40 new companies is technically true, but that's about it. The new capital just doesn't benefit the typical homeowner."

According to CEI, only \$609 million of the \$4 billion in capital comes from 29 regulated insurers that provide some kind of property insurance. Over 80 percent of the total, or \$4.3 billion, comes from 18 surplus lines insurance carriers that are subject to only minimal regulation and mostly serve only the very well-off, CEI said.

But Jack McDermott, OIR acting communications director, responded that the addition of any capacity after the 2004 and 2005 hurricane seasons is the story. "We would take exception to the comment 'only \$609 million,'" he wrote to NU Online. "Following the \$36 billion in insured damage following the 2004-2005 storm seasons, initially the State of Florida's markets had difficulty finding any new investment capital at any price. This included the traditional admitted lines, and surplus lines markets."

The \$609 million, Mr. McDermott said, has been used primarily for personal and commercial residential insurance, and as of December 31, 2008, the new companies have written 615,959 personal and commercial residential policies in Florida "nearly 10 percent of all personal and commercial residential policies written in the admitted market."

He also said CEI mischaracterized the surplus lines market, stating that they service commercial multi-peril risks that keep Florida's economy running in addition to the "well off."

CEI also said in its critique that eight of the companies "strictly limit the types of coverage they write and do not write coverage on typical homes." CEI said these companies will only write, for example, commercial, commercial residential (condo associations), or unique residential (mobile homes, properties worth over \$1 million, or other "high value homes").

CEI stated that "only 10 companies, in all, provide new capital to back typical homeowners insurance policies. Nine of these ten are Florida-only startup companies. Although some may have other sources of capital that are not easily documented, only one company, ASI, clearly runs a multi-state property insurance business and has diversified, multi-state capital."

Mr. McDermott countered that regardless of restrictions on what a company will write, all of the companies are providing insurance that would otherwise have been written by Citizens Property Insurance Corporation, the state's insurer of last resort.

"To some degree," he said, "all companies limit their scope based on their underwriting guidelines. It may be true that specific companies are focusing on different segments of the marketplace or 'niche' markets that is part of an individual company's business plan."

He also challenged CEI's data that only 10 companies provide new capital back to typical homeowners policies.

"Since 2006, we had 21 of the companies in the admitted market write personal and commercial residential policies as of December 31, 2008 (the last date we have data available)," Mr. McDermott wrote.

He said, "The number is probably higher at this juncture. In addition, there were three companies that

expanded lines of business and have personal and commercial residential policies in force as of this date. CEI also said two of the companies are not writing new policies at all but rather only doing takeouts of Citizens.

Mr. McDermott said the OIR defines "new" as new to the private sector, and so companies doing takeouts of Citizens would count.

Citizens, he noted, is really a pseudo-governmental agency intended to be the insurer of last resort. The legislature's strategy is that many of the newer companies begin with "take-out policies" and at a later time expand writing in the admitted market, Mr. McDermott said.

He added that developing strategies to de-populate Citizens is a central strategy of the OIR and the legislature. CEI's Mr. Camara said, "The report gives the impression that all these companies and several billion in capital are flooding the state's homeowners insurance market. It goes to show that Governor [Charlie] Crist's insurance experiment of 2007 chased away the nation's largest, most recognized and capitalized carriers in exchange for a handful of small, Florida-only companies that concentrate risk inside Florida at the expense of taxpayers.

"Unfortunately, it will take one hurricane hitting the right place for this experiment to blow up in our collective faces."

Mr. McDermott said, "The key is not to focus only on homeowners (HO-3) policies, but the full gamut of residential property including tenants, condominium unit owners, dwelling/fire policies, mobile homeowners, condominium association policies, homeowners' association policies, and apartment buildings. These are also critical in providing insurance to Floridians."

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