Fla. Tries to Escape Its Overexposure to Storm Damages

by The-New-York-Times

Florida is launching a new assault on hurricanes -- with percentage points.

The state's vast public insurance program is seeking a 7.5 percent average increase for its riskiest policies, covering some 300,000 homes on exposed beaches and in wind alleys that have for years received discounted insurance.

The mathematical process might seem mundane. But it marks, perhaps, the end of a remarkable period in which the bull's-eye state eagerly provided artificially low-priced insurance in the most hurricane-stricken strip in the country. To many, that amounted to a head-on collision with a cranky climate that is producing more catastrophes worldwide.

"It's a virtual guarantee that Florida would destroy itself financially if it continued on the current path," said Robert Hartwig, president of the Insurance Information Institute, an industry group. "Florida is finally beginning to get serious about the financial vulnerability it has exposed its citizens to."

Florida lawmakers froze the public insurer's rates three years ago, hoping to provide a safety net to residents when private companies abandoned the state after hurricanes mauled the magnetic peninsula in 2004 and 2005.

The rate freeze helped homeowners fill their insurance gap, but it exacerbated the state's financial dilemma. The program didn't have nearly enough cash to cover the policies for the 1 million-plus houses, businesses, condos and mobile homes the state had sold. Florida became its own largest insurer, accepting nearly $500 billion in risk.

Addressing 'a pretty significant rate need'

Now the proposed rate hike is seen as the first step in a long effort needed to fortify Citizens Property Insurance Corp., the state's public underwriting program, against its potential storm damage exposure. Some estimates say the program might have to double the premiums on high-risk homes and businesses before it can begin to accumulate enough cash to pay claims like private companies. Right now, Citizens charges fees, or assessments, on nearly every insurance customer in the state -- including inland homeowners and motorists -- when its cash runs dry during a hurricane.

Even if rates did rise wildly, "we still have the major problem," said Republican state Rep. Bill Proctor, who notes that it could take years to collect enough cash to offset Citizens' exposure to financial loss.

"Even when you get them up to that rate, if a major storm strikes us, just because they have improved their rates doesn't mean they'll have accumulated the capital they need to cover their exposure," Proctor said.

Citizens is trying to correct itself, Paul Palumbo, the program's senior vice president of underwriting, told state regulators Tuesday. The public company has "pretty significant rate need," he said, adding that those price hikes are "fair" to policyholders.

The hearing focused on the program's high-risk account, which underwrites homes that no private company will insure. The program currently has about $1.4 billion in reserves derived from collected premiums. That's not much. High-risk homes accounted for nearly 60 percent of Citizens' potential loss last year, or $240 billion.

The reserves for that account would be depleted if a storm likely to occur once every eight years struck those high-risk homes, Palumbo said.

Lawmakers running hot and cold

The state Legislature has had mixed results when dabbling with Citizens' rates. Not long ago, it was rolling prices back, a move that many climate advocates say encouraged development in vulnerable areas on the coast. That, these environmentalists say, is the last thing that should occur as scientists warn of rising seas and stronger storms associated with higher levels of greenhouse gases in the atmosphere.

But the Legislature changed course in May, when it voted to allow Citizens to raise its rates by 10 percent every year until the program is on firm financial footing. But it's unclear if state insurance regulators will go along. Citizens' officials still need to justify their proposed increases with actuarial arguments -- precise mathematical calculations based on past experience that prove a rate hike is needed.

Regulators on Tuesday indicated that Citizens might have failed to do that. The program has been collecting a 15 percent surcharge for reinsurance since 1983. That amounts to about $100 million this year, but Citizens

omitted that revenue from calculations showing its claims-paying ability.
Ken Ritzenthaler, an actuary with the Florida Office of Insurance, the regulatory body, said that's a "serious oversight."
The result could be a lower rate increase. Regulators ordered Citizens to recalculate its rate proposal under the assumption that it had an additional $100 million to pay claims. The result was a rate hike of 4.4 percent for high-risk homes, or less than half of what the Legislature approved. Regulators will make their decision on the rate case within a few weeks.
Weighing climate risks against poverty
Raising insurance prices is an explosive political proposition. The hearing was met with stout opposition from residents of the Florida Keys, who could see a 10 percent hike along their string of islands, which stretches 125 miles. They contend that the area's strict building codes, which can reduce damage, should lower insurance prices.
And while everyone agrees something must be done to heal the state's ailing insurance market, it's often unclear what that remedy should be.
"The solution for some is to let insurance companies raise rates ad nauseam," fumed Republican state Sen. Mike Fasano, who supports freezing rates. "Well, you can't do that. I challenge anyone who makes that suggestion to come down to my Senate district, and I'll take you through communities where homes are being foreclosed on, where people have lost their jobs, where they are barely being able to keep food on the table, let alone pay an insurance premium that is expected to go up 60, 70, 100 percent."
Higher insurance rates are designed to give the public program more cash to pay claims. That way, Citizens won't have to take on debt or apply statewide assessments that are often seen as a subsidy paid by inland residents to beach dwellers.
But that outlook might be too optimistic. It's possible that the state could never completely escape from its massive overexposure, said Sam Miller, executive vice president of the Florida Insurance Council.
"I don't know that you'll ever get to the point where there won't be assessments at all," he said skeptically.