THE INSURANCE CRISIS –
AN ISSUE IN THE UPCOMING STATE ELECTIONS

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How should we think about the insurance crisis as we prepare to vote in November?

• What’s the real issue?
• How is government involved?
• Why is this all of a sudden a “crisis”?
• What are the candidates’ proposed solutions?
• What can we do to make a difference?
What’s the real issue?

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The issue for Florida’s homeowners is dropped policies and skyrocketing property insurance rates.

- Last year, Safeco exited Florida altogether, Allstate Floridian dropped 95,000 policies and Nationwide dropped 35,000.
- In July, State Farm, one of Florida’s largest insurers, said it will raise property insurance rates by an average of 52.7 percent this year.
- In September, Allstate, the state’s second-largest private carrier, proposed statewide increases of 24.2 to 31.6 percent.
- In September, all Floridians who pay homeowners insurance premiums were assessed a one-time charge to help bail out Citizens, the state’s insurer of last resort -- $20.70 per $1000 of premium.
- And these are just some examples!
But how is government involved?

- What's the real issue?
- **How is government involved?**
- Why is this all of a sudden a “crisis”?
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The State Legislature makes laws that determine the way the problems of society – including the insurance crisis – are addressed.

- In addition, the Speaker of the House and the President of the Senate each appoint two members of the Board of Governors of Florida’s insurer of last resort.
Within the Executive Branch, Florida’s Financial Services Commission oversees the insurance and financial services industries.

- The FSC is comprised of the Governor and his cabinet: the Attorney General, the Commissioner of Agriculture, and the Chief Financial Officer.
- The Governor and CFO each appoint 2 members of the Board of Governors of Florida’s insurer of last resort.

The Financial Services Commission oversees an Office of Insurance Regulation and appoints its commissioner.

- Responsible for regulation and oversight of more than 3,700 insurance entities operating in Florida, including:
  - requests for rate increases,
  - financial oversight, and
  - approval of policy language and terms.
- Establishes agency policies
- Provides new and existing insurance entities assistance for market development with products and lines of business.
Why is this all of a sudden a “crisis”?

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Actually, the “crisis” began building in 1992, after Hurricane Andrew set a record for insured losses.

- Caused $16 billion in damage paid by insurers who took in only $11 billion in premiums in the previous 20 years
- Resulted in:
  - more than 1 million homeowners losing their private market insurance coverages
  - those who did not lose their coverage saw premium increases as high as 300 percent
  - 12 insurance companies failing
In response to this unexpected impact on the insurance industry, elected officials, regulators and industry leaders created the Florida JUA.

The *Florida Residential Property Casualty Joint Underwriting Association* (JUA)

- to provide residential property and casualty insurance coverage to property owners unable to obtain coverage from private insurers
- to function along with *an expanded Florida Windstorm Underwriting Association* (FWUA) to provide hurricane and windstorm coverage to those who could not obtain it
  - created in 1970 to offer coverage in the Florida Keys

They also created the Florida Hurricane Catastrophe Fund (Cat Fund).

The *Cat Fund*

- to aid insurers by providing reinsurance to those writing residential coverages at rates and amounts not available to them elsewhere
  - Reinsurance is essentially insurance for insurance companies
  - It helps them spread their risk by paying another insurer to take it on
Time passed, and in 2002, the JUA and the FWUA were merged to create Citizens Property Insurance Corporation.

- Citizens is Florida’s “insurer of last resort”
  - It was designed to offer insurance only where the private market will not provide coverage
- It is required to have a rate structure that is uncompetitive with the private market
  - It must charge rates higher than the top 20 insurers in a given region


- Of this amount, $4 billion was paid by policy holders through their deductibles and $35 billion was paid by private insurers and by Citizens.
- For comparison, the losses from Hurricane Katrina, considered the greatest natural disaster in U.S. history, totaled $50 - $60 billion.
They caused unanticipated, record, insured catastrophe losses of $58 billion -- yet property & casualty insurers’ overall profitability increased.

Meanwhile, Citizens, insurer of last resort, had become the largest property insurer in Florida and ran a deficit in 2005:

- Under Florida law, any shortfall in Citizens is recouped by an assessment on property insurance companies statewide, so that Citizens can continue to pay claims in the future.
- A $516 million - 6.8% - assessment was imposed in 2005 to help finance Citizens’ losses from the 2004 hurricane season.
- Citizens incurred more than $2.6 billion in losses from 168,000 claims as a result of the 2005 storms, resulting in a 2005 shortfall of $1.7 billion.
Entering the 2006 Legislative Session, Florida lawmakers faced major insurance challenges.

- Citizens had a $1.7 billion deficit.
- The Cat Fund, the state’s reinsurance mechanism, faced the prospect of entering its 2006 contract year in June with a zero balance or small deficit, after incurring $6.8 billion in losses in 2004 and 2005.
- Florida homeowners were facing another assessment for 2005 storm losses on top of the one they had paid for 2004.

Several measures were proposed early on, but insurance legislation was one of the toughest challenges of the session.

In the closing hours of the session in May, a comprehensive property insurance bill (SB 1980) was passed.

- To address Citizen’s $1.7 billion deficit:
  - Provided $715 million in state general revenue funds, reducing an estimated $920 million regular assessment against property insurers to about $205 million
    - thereby reducing an estimated average 11% premium surcharge to about 2.5% for property insurance policyholders in the state (including Citizens policyholders)
  - Required the remaining $800 million of the deficit, which would have required about an 8% emergency assessment on policyholders if billed in one year, to be amortized and collected from policyholders over a 10-year period
- To address a concern that Citizens’ rates do not adequately reflect its risks, approved a new rating structure to be phased in over 3 years
In the closing hours of the session in May, a comprehensive property insurance bill (SB 1980) was passed (cont’d)

- To help residents make their homes more resistant to storms:
  - Provided $250 million to a new Florida Comprehensive Hurricane Damage Mitigation Program (aka the My Safe Florida Home Program)
    - Offers free inspections
    - Provides matching grants up to $5,000 to qualified homeowners who make recommended improvements to reduce the risk of wind damage.

In the closing hours of the session in May, a comprehensive property insurance bill (SB 1980) was passed (cont’d)

- To attract more insurers to writing policies in the state:
  - Increased access to the Cat Fund for small insurers to provide greater insurance capacity in the state
  - Created a $250 million capital build-up incentive program, offering 20-year loans to help insurers strengthen their financial condition
- Increased the oversight over Citizens by the Financial Services Commission (rather than the Office of Insurance Regulation) and required an audit by the Auditor General every 3 years
In June, the governor appointed a committee to recommend solutions to the insurance crisis.

- The Florida Property and Casualty Insurance Reform Committee was charged with
  - making recommendations on improving competition and creating incentives for insurance policy writing in all markets
  - encouraging commercial as well as residential hazard mitigation
  - improving insurance agent underwriting practices
  - reducing the reliance on Citizens Property Insurance Corporation and exposure of the CAT Fund by substituting private alternatives
  - influencing national catastrophe risk management planning
- If a consensus can be reached, a special legislative session might be called to enact changes

Despite this flurry of activity, Floridians remain unhappy about their insurance rates, and this has become a major issue in the election campaigns.
So what are the candidates’ proposed solutions?

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Both gubernatorial candidates cite similar goals: to do something about rising homeowners insurance rates.

Republican Candidate
Charlie Crist

Democrat Candidate
Jim Davis
Charlie Crist Offers a 4-Part “Plan to Help Homeowners.”

• Bring Costs Down
  – Improve the Cat Fund’s ability to provide reinsurance to residential insurers by allowing access to the Cat Fund sooner (i.e. when an insurer’s aggregate losses reach $3.2 billion vs. $5.3 billion today)
  – Seek to establish a National Catastrophe Fund to spread the risk of Florida’s hurricanes across the entire county

• Get Homes Ready
  – Require insurance companies to provide home inspections, identify action steps, provide financial help for homeowners to make improvements, require insurance companies to give discounts for the improvements
  – Seek to exempt hurricane improvements to homesteaded property from increasing the property’s assessed value for tax purposes
  – Increase consumer awareness
  – Incentivize builders to build with greater-than-code protections with density bonuses, lower impact fees and concurrency credits

Charlie Crist Offers a 4-Part “Plan to Help Homeowners.” (cont’d)

• End the Shell Game - Insurance companies can’t …
  profit from Floridians, ship profits out of state, and then seek record rate increases from Florida.”
  – Institute an Annual Report Card for Insurance Companies – including profit margins; profits & losses of any Florida subsidiary compared to its national parent’s
  – Demand Transparency and Accountability – ensure methodology for seeking rate increases reflects profitability of the national parent
  – Take Care of Homeowners First – require assisted living expense claim checks be mailed directly and timely to homeowners

• Stop the Cherry Picking
  – Do not permit insurers to cancel or refuse to sell homeowners insurance in Florida while continuing to sell more profitable lines like auto insurance
Jim Davis offers an 8-point “Policyholders Bill of Rights.”

**Floridians have the right:**

- To stable insurance premiums and to be protected by the Governor’s Policyholder Advocate General in the rate approval process
- To have their hurricane damage claims settled fairly and quickly by their insurance companies
  - Remove the “loophole” inserted in SB 1980 and prevent insurers from refusing to honor coverage for wind damage by suggesting it was caused by flooding
- To have a strong Federal Catastrophe Insurance Fund in the event of widespread storm damage
- To an insurer of last resort that provides quality coverage without wasting taxpayer dollars
  - Conduct annual audits of Citizens; add policyholder representation to Citizen’s Board of Governors to minimize political influence

Jim Davis offers an 8-point “Policyholders Bill of Rights.” (cont’d)

**Floridians have the right:**

- To a fully-funded, financially sound Hurricane Catastrophe Fund
  - “...would veto any attempt to raid the Cat Fund for other budget items and instead look for ways to strengthen the Cat Fund.”
- To easily obtain low-interest loans to “hurricane-proof” their property
  - Broaden state programs: including tax credits, grants, incentives and low-interest loans
  - Expand financial incentives with insurance discounts for reducing homes’ vulnerability to storms
- To a Governor’s Policyholder Advocate General who will hold insurance companies accountable for processing and paying out claims in a fair and timely manner
  - PAG will reform Citizens through an audit of actuarial practices and by improving administrative guidelines
- To choose their insurance carrier and not the other way around
  - Require 1 yr notice before insurers can drop a customer who paid his/her premiums for 3 consecutive years and did not file any claims
Despite these promises, the insurance crisis has been, and will continue to be, hard to “fix.”

- Stop cherry picking?
  - Could be unconstitutional and lead to spillover problems in Florida’s auto insurance market
- Lower the Cat Fund deductible?
  - May lower premiums in the short run, but cause another Cat Fund deficit sooner, resulting in additional statewide assessments
- Remove the “loophole” distinguishing between wind and flood damage?
  - Insurers might raise rates because they have not collected premiums for flood damage in the past
- Create a federal catastrophe fund?
  - Realistically, may not happen fast enough to make a difference

What we’ve learned today should help us be more informed voters in the November 7th election.

- We understand the nature of the problem
- We know how government is involved: the legislature and the cabinet … the Financial Services Commission … the Office of Insurance Regulation
- We know some history: that the “crisis” has been building since 1992 – and that state-sponsored “cushions” already exist
  - Citizens Property Insurance Corporation – to aid homeowners
  - Florida Hurricane Catastrophe Fund (Cat Fund) – to aid insurers
- We learned that, as a result of the 2004/05 storms, these agencies became financially stressed and required bailouts
- We know the legislature took action at the end of the 2006 session, that an Insurance Reform Committee was subsequently formed to recommend further improvements, and that if a consensus can be reached, the Governor may call a special session to enact changes
What we’ve learned today should help us be more informed voters in the November 7th election. (cont’d)

- We’ve read the insurance-related proposals by the gubernatorial candidates
- We’ve heard some of the criticisms of those proposals

... 

- Most importantly, we’ve learned that **there is no single “key” to solving the problem**

Now what can we do to make a difference?

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Here are some things we can do …

• Stay informed
  – Local newspapers are very focused on this issue
  – Watch for a special session of the Legislature
  – Sign up for weekly emails from the Department of Financial Services at www.fldfs.com/PressOffice/Newsletter/

• Lobby our representatives
  – Decades-old home and condo associations and newly-formed neighborhood groups are cropping up around the state to press for solutions to this escalating crisis
  – Email links to all our representatives are at www.lwvcolliercounty.org

• Help your friends and neighbors understand the issues

• Encourage everyone you know to VOTE on November 7th and ensure their voices will be heard!

Questions? Comments?