

Insurance Market Is in for Changes

By Mike Vogel - 10/1/2009

As we move into October, here's how things stand in Florida's high-risk wager in the game of chance it has chosen to play with property insurance and hurricanes:

» **Citizens Property Insurance.** Next year, the first rate increase — no more than 10% for any customer — at state-subsidized Citizens takes effect since a freeze three years ago. The state is trying to end artificially low rates and bring actuarial-soundness to Florida's largest home insurer. Citizens still has 1 million customers, 413,858 of whom have homes in the high-risk area on the coasts. After nearly four years without a significant storm, Citizens' surplus is only \$3.9 billion. "It will take a long, long time for Citizens rates to get where they need to be and its surplus to where it needs to be, but at least the state has started that process," says Sam Miller of the industry's Florida Insurance Council.

» **Mitigation.** For years, the mantra has been that the solution for Florida is for property owners to retrofit homes to mitigate storm damage. As an incentive, Florida mandates premium cuts for homeowners who install protective measures. Insurers, however, complain the discounts are too steep. A commission studying the issue reports its findings in February.

» **State Farm.** Florida's largest private insurer wants out. With its financial outlook, "We don't have any other choice," says spokesman Michal Connolly. Unless the company and regulators settle their disagreement on how State Farm exits, an administrative proceeding in November will decide.

» **New insurers.** New, smaller insurers have captured an increasing share of the Florida market, but Michael Letcher, president of Home Insurance Buyers Guide (www.homeinsurancebuyers.org) in Lake Worth, says a survey of his service's customers shows worry about the quality of the companies. "They're concerned about who they're with," Letcher says.

» **Assessments.** Policy owners in Florida will continue to pay a 1% catastrophe fund tax on their premiums for the next five years, a hangover from the 2005 season. Citizens is charging all Florida homeowners, not just its customers, a 1.4% assessment for seven more years.

» **CAT fund.** Had a hurricane hit Florida last fall when the credit markets iced over, the catastrophe fund, which provides insurance to insurers, had no hope of selling enough bonds to cover its commitments to insurers, and by extension, homeowners. The projected shortfall was \$18.5 billion if the big one hit. With a better bond market, the fund shortfall this year is "only" \$7 billion. Meanwhile, the Legislature ordered the fund to charge more to build cash fast. The charge will add \$750 million to the fund over five years. The fund should have \$4.5 billion in cash at year-end.