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Coverage gap

As Citizens Insurance reduces coverage options, advocates worry that there aren't enough private insurers to fill the void

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Citizens Property Insurance Corp. was always meant to be a Florida resident's last, best hope for property insurance. When nobody else would cover your home or business, you could always go to Citizens for a policy. But these days, there are fewer firms than ever writing insurance policies in Florida, so the state's so-called "insurer of last resort" has become the *only* insurance option for many homeowners – for others, it's the preferable option because it offers coverage and rates competitive with those of private companies.

So when Citizens sent out letters to policyholders late last year notifying them that, as of 2012, the company would no longer be providing coverage for carports, screen rooms, patios, pool cages or awnings – valuable parts of a property that can amount to up to a third of the footprint of a typical home in Florida – some were alarmed. If you're already with the insurer of last resort, which then drops your coverage, who's going to cover you?

"I would like to know who is going to pay to have the debris these attachments will create removed from our streets after a catastrophic hurricane devastates Florida," an anonymous home-owner and insurance agent wrote in a letter sent to media outlets throughout the state. "I would also like to know who will pay to rebuild the damaged portions of our homes the loss of these attachments will create in order to make our homes livable again."

Citizens is a nonprofit, state-run insurance company established in 2002 to address the fact that private property insurers were fleeing the Florida market due to hurricane risk. The company picked up the slack as insurance companies departed over the years, and it's now the state's largest insurer, providing comprehensive coverage for nearly 1.5 million commercial and residential locations as of Dec. 31, 2011. For perspective, that's about 300,000 more properties than it insured five years ago and almost double what it insured at this time in 2003. The company's total liabilities (the amount it would have to pay out if every property it covered was destroyed, referred to in the industry as "exposure"), ballooned from $193 billion in 2003 to more than half a trillion dollars today.

According to Candace Bunker, a spokesperson for Citizens, such high levels of liability don't mesh well with Gov. Rick Scott's plans to "return Citizens into the insurer of last resort." The governor wants to put Citizens back into what's called the residual marketplace – in other words, reduce people's reliance on it and urge them to choose private companies that offer comparable rates and products.

Now Citizens is changing how it assesses properties by redefining what "comprehensive" coverage actually is. The goal – which butts up against the original mission of Citizens – is to not only reduce the company's overall liabilities but also to spur consumers to consider different insurers.

According to an email Citizens sent to insurance agents in November, "there is no buy-back option for structures that are no longer covered." Translation: Policyholders will not be able to pay more money to cover the excluded parts of their property. The properties will be covered under existing policies until they expire; when the time comes to renew, coverage will be eliminated from the new policy.

Interestingly, Florida has a bill of rights for property insurance customers, issued by the Florida Department of Financial Services. One of its tenets includes the right to "obtain comprehensive coverage."

Don't these changes to how Citizens insures property violate that mandate? Not necessarily, according to Robin Westcott, Florida's Insurance Consumer Advocate and executive director of the Medicaid and Public Assistance Fraud Strike Force.

"It's probably not going against the intent of the law, which is to make sure that when you're offered a policy that it has appropriate coverage for your home," she says, though she says this will likely "be a question" as the Florida Office of Insurance Regulation reviews renewals this year. "I think, for me, the overall question becomes how we are dealing with it, or if Citizens is realigning themselves to look more traditional or have a policy that's offered in the marketplace."

Westcott agrees with the philosophy of returning Citizens, which is now an active competitor in the insurance market rather than a last-ditch alternative, to the residual market. One of the problems with a state-run company like Citizens ballooning in size is that taxpayers are ultimately on the hook for covering the company's liabilities – which could be disastrous should a natural disaster result in more claims than the insurance giant can easily absorb.

Michael J. Letcher, who publishes the Home Insurance Buyers Guide (www.homeinsurancebuyers.org), calls this a "critical moment" for the state. "There is too much exposure to Citizens and just not enough money," he says. He suggests that the state offer incentives for private insurers to return to Florida.

At the moment, though, there may not be enough private coverage to go around. "I'm very concerned for policyholders who have no other choice but a Citizens' policy right now, because the whole thought process behind going back to a residual marketplace is that the private carriers are going to fill that gap," Westcott says. "My guess is that the private marketplace will create and will go out there and market some products that will be able to fill the gap. But those aren't there yet for policyholders. We get the cart before the horse."

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