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## THE INSURANCE CRISIS

# PAY NOW OR PAY LATER?

THE LEGISLATURE MEETS TUESDAY TO TACKLE THE INSURANCE CRISIS. HOMEOWNERS WILL SEE SOME RATE RELIEF, BUT IT COMES AT A BIG PRICE.



JOE RIMKUS JR./MIAMI HERALD FILE, 2004

EXPOSED: A Port Charlotte home is roofless after Hurricane Charley.

BY BEATRICE E. GARCIA  
bgarcia@miamiherald.com

Relief from rocketing insurance rates is on the way. But curb your excitement. You will pay later.

Many of the proposals to be deliberated on during this week's special session of the Legislature would pass more risk from insurers to consumers and the state of Florida.

### FIVE REASONS WE'RE IN THIS MESS MONEY, 1E

That means the tab would be deferred until a major storm hits. Then all Florida residents would pay, through hefty surcharges on insurance policies or higher taxes.

"What we're doing is providing a short-term fix, which is great for consumers," said Michael Keeby, senior vice president of HBA Insurance Group. "Long-term, what's going to happen is that [this crisis] is going to kill our economy."

Since lawmakers wrapped up the 2006 legislative session last May, the state's insurance crisis has rapidly worsened. Insurers demanded outsized rate increases, doubling and tripling premiums for many homeowners. They also dropped tens of thousands of policies, many held by longtime customers. Some commercial carriers

\*TURN TO INSURANCE, 28A

MANDATE: Gov. Charlie Crist says he will accept only new legislation that lowers rates. Story, 1B



## Plan for rate relief: Insured pay later

### PROPOSALS WITH RISKS

Indeed, several consumer-oriented proposals that could pass in the special session first emerged in a task force led by former Lt. Gov. Toni Jennings. They include allowing homeowners to buy less coverage, perhaps just enough to cover their mortgages, or take on bigger deductibles, or forgo wind-storm insurance entirely. All those proposals provide substantial instant savings on annual premiums.

But again, much more risk. Homeowners would pay a bigger portion of the repair bill after a storm.

"Pay now or pay later. That's a decision you will have to make on behalf of Florida's residents," Mark Delegal, a lobbyist for State Farm Insurance, told a Senate committee last week.

There is also a consensus on some proposals that could lower rates for homeowners covered by Citizens Property Insurance, the state-run pool, and some broader measures, such as:

- Freezing rates for Citizens for a year, and eliminating the provision that would have required a 56 percent rate hike so the company could build reserves more quickly.

- No longer requiring Citizens to charge the highest rates in a market.

- Adopting a statewide building code.

- Expanding the state's mitigation program and standardizing discounts for homeowners who strengthen their homes against hurricanes.

"We've been having insurance discussions since October. We have a lot of agreement," said House Speaker Marco Rubio, a Republican from Coral Gables.

The Senate has a 153-page

dropped out of Florida, leaving businesses scrambling for coverage at any price.

Beginning Tuesday, lawmakers go back to their chambers. Gov. Charlie Crist says he will accept only new legislation that lowers rates. He is optimistic that the Legislature will deliver.

"We must mandate meaningful and broad-based rate relief for our homeowners," he said late last week.

One way to provide rate relief quickly — a measure that will most likely pass because it has broad support — is to expand the state's catastrophe fund so insurers could buy a bigger chunk of less expensive backup insurance. Insurers would pass the savings on to policyholders.

It's considered a good plan, but not one without risks.

If a Category 5 hurricane hits a densely populated area of the state, say South Florida, the Florida Hurricane Catastrophe Fund would blow through its \$15 billion capacity and taxpayers would foot the rest of the bill.

"There is no question that the state will assume more risk," said Rep. Dan Gelber, a Democrat from Miami Beach. "The issue is how to provide the most responsible way to deliver rate relief."

bill on the table. The House has outlined as many as six bills that will tackle its goals.

Both the House and Senate have proposed bigger changes in how Citizens operates. For instance, the Senate is considering allowing Citizens to write policies to cover all potential home damage, including fire and theft. Such a move would essentially eliminate the state's designated windpool area. Also, by expanding its lines, Citizens could be more profitable and avoid future hefty premium increases.

But this proposal is strongly opposed by House leaders, who would rather replace Citizens' board of directors and impose new management controls to improve its performance before allowing it to offer other insurance products.

The House includes two proposals made by Gov. Crist on the campaign trail last year that the Senate is now resisting: preventing the formation of Florida-only subsidiaries for national insurers that operate in the state and demanding that insurers sell homeowners insurance in Florida if they do so outside the state.

Another point of contention this week will be whether the House will accept a Senate proposal for a super insurance fund that would cap the amount private companies pay out in a one-in-75-year storm and dip into state revenues for the remainder. House leaders warn that such a plan could shield insurers from the most costly risk and could lead to major cuts in the state budget or tax increases.

Unlike two past legislative sessions where lawmakers easily accepted the rationale proposed by insurance companies for favorable law changes, there is tough talk in Tallahassee.

"Lawmakers won't be as flat-footed this time," said Sen. Bill Posey, a Republican from Rockledge who leads the Senate Banking and Insurance Committee this year.

On the agenda are provisions to make insurers more accountable: having the companies' chief executive officers sign off on rate filings; requiring state regulator approval of rate hikes before they are implemented, and providing more power to the state's insurance consumer advocate to represent consumers.



JENSEN BEACH, 2004: Hurricane Frances was one of the storms that would alter the state's insurance industry.

**INSURERS UNEASY**

Already, insurers are complaining about some measures.

"Making CEOs sign off on rate filings and eliminating the windpool don't produce any benefits for consumers and make it harder to do business in Florida," said Delegal, the State Farm lobbyist.

To keep lawmakers focused on the interests of homeowners, not insurers, consumer activist groups plan a huge rally Tuesday on the Capitol steps.

Throughout the state, about a dozen groups have been formed in the past year, questioning rate increases and demanding accountability. One group, FIRM — Fair Insurance Rates in Monroe — has already won a rate rollback for one year.

Business owners, too, will be tuned in to Tallahassee.

Said Richard Barkett, who heads the Realtor Association of Greater Fort Lauderdale: "Taxes and insurance are now the No. 1 concern when a buyer is coming in nowadays, especially a first-time buyer. It used to be location, location, location. Today, it's 'What's my bottom line?'"

As lawmakers approach their work this week, they have realized, often personally, that the act of buying property insurance in Florida changed drastically after the 2004 and 2005 hurricanes.

"I didn't have shutters until two years ago," Sen. Posey said. "I would say that's what I have insurance for. But those days are over."

**KEY POINTS OF SENATE AND HOUSE PROPOSALS**

**In both plans:**

- Roll back Citizens Property Insurance rates to 2006 levels through January 2008, and remove the requirement that Citizens have the highest rates in a market.
- Use the state Hurricane Catastrophe Fund to provide reinsurance at below-market prices to private insurers and pass savings to policyholders.
- Include the Panhandle in the statewide building code.
- Let homeowners receive credits on their insurance bills for strengthening their homes against wind damage.
- Ask Congress to consider creating a national catastrophe fund, and change the Internal Revenue Service code to allow for tax-free hurricane savings accounts.

**In the Senate plan:**

- Expand Citizens so it could spread its risk by letting it write more than just windstorm insurance. Citizens officials said policyholders could save about 25 percent if the company were allowed to write expanded coverage.
- Allow Citizens to cover vacation homes and second homes as well as homes valued at more than \$1 million.

**In the House plan:**

- Require insurance companies to factor in national profits when their Florida subsidiaries request rate increases and prohibit the creation of future "pup" companies, in which national companies create subsidiaries that can isolate their losses to Florida.
- Ban the practice of "cherry-picking," when an insurance company writes homeowners policies in other states but writes only other lines of insurance in Florida.



CANDACE WEST/MIAMI HERALD STAFF

**FOCUS ON HOME BUYERS:** Realtor association chief Richard Barkett.

**KEY PLAYERS IN TALLAHASSEE**



**Kevin McCarty**, longtime Tallahassee insurance regulator, currently insurance commissioner. He approves or disapproves insurers' rate requests.



**Alex Sink**, newly elected as state's chief financial officer, is the only Democrat in the Florida Cabinet. She is willing to work with insurers if they are willing to pass savings on to the state's homeowners.



**Marco Rubio**, a Republican from Coral Gables, is speaker of the state House of Representatives for the next two years. He convened House members in Tallahassee last month to learn the ins and outs of insurance regulation and understand the problems.



**Ken Prull**, a Republican senator from Port St. Lucie, is getting an earful from the constituents in his district, which stretches from northern Palm Beach County through Indian River County. He takes over as the Senate president with the 2007 session, for a two-year term.



**Bill Posey**, new head of the Senate Banking and Insurance Committee, a Republican from Rockledge, is no stranger to crafting insurance legislation. He previously served on that panel from 2002 to 2004.



**Ron Reagan**, a Republican from Bradenton, takes over the reins of the House Insurance Committee for the next two years. He works as an insurance agent.