"No plan — apart from happy-go-lucky Charlie Crist optimism — is in place to help citizens recover from an enormous disaster, the likes of which our state has felt before (Andrew, 1992) and, as a state with more miles of coastline than any other, is almost certain to feel again…The hapless Department of Insurance continues to promote feel-good figures that don't actually tell the truth: It says, for instance, that some $4.2 billion in fresh capital now stands behind new property insurance companies willing to do business here. What Florida Insurance Commissioner Kevin McCarty only barely acknowledges, though, is that these largely unregulated "surplus lines" specialize in a high-risk commercial properties, waterfront condos and other hard-to-insure properties — not mom-and-pop homeowners in the three-bedroom bungalow." **-- Tallahassee Democrat Editorial, *Hurricane Reason*, September 6, 2009**

"McCarty needs to explain how Florida has a rejuvenated market when the smallest amount of capital is coming from companies fully regulated by the state - the situation the vetoed bill was trying to rectify..He must explain how he could argue against a bill that would have allowed the State Farms, AllStates and Nationwides of the world to sell traditional homeowners policies at financially sound but unregulated rates and then applaud surplus lines companies for bringing new capital by charging largely unregulated prices. Lawmakers and their constituents deserve honest answers." **-- Tampa Tribune Editorial, *Insurance chief's numbers amount to fuzzy math*, August 28, 2009**

"McCarty's latest report proves that the private homeowners insurance market isn't growing anywhere near as much as the governor and commissioner have claimed. At best, they are guilty of a gross exaggeration and obfuscation; at worst, they outright lied…Voters should take that into account when deciding whether Crist should be Florida's next U.S. senator. McCarty, though, is appointed. He should be fired for promoting such misleading information." **-- Panama City News Herald Editorial, *Numbers Don't Add Up*, August 17, 2009**

"It was bad enough to learn earlier this summer that the overwhelming majority of $4.9 billion in new capital in Florida's property insurance market — a number trumpeted relentlessly by Gov. Charlie Crist — had come from unregulated carriers. But here's an even more shocking number: $277 million. That's the paltry amount of capital provided by regulated companies that didn't get a taxpayer handout to set up shop in the state…State lawmakers never heard that fact as they contemplated insurance reform during the last legislative session. Instead, they got relentless spin from Crist and Insurance Commissioner Kevin McCarty implying that the private homeowners insurance market was on a healthy rebound. Their pitch, in hindsight, was nothing less than deception." **-- St. Petersburg Times Editorial, *Florida Insurance Numbers Deceive,* August 14, 2009**

"The state's homeowners' insurance market is nowhere near as healthy as top state officials claim….In sum, of the 54 companies touted as new property insurers since 2006, only 11 of those brought new capital into the market to write homeowners or mobile-homes policies. And these 11 account for only $208 million of new capital…But so far the governor and the insurance commissioner aren't listening. Their hurricane strategy is obvious: It's the Katrina model — when in need, go begging to Washington." **– Gulf Coast Business Review, McCarty's Camouflage, July 20, 2009.**

TALLAHASSEE DEMOCRAT

September 6, 2009

Our Opinion: Hurricane reason

More choice in insurance still needed

The hurricane season in our vulnerable Sunshine State is well under way and, as Rep. Bill Proctor, R-St. Augustine, said Thursday, we have enjoyed "four years of grace" without the 100-year storm in a major area that would sink Florida financially.

No plan — apart from happy-go-lucky Charlie Crist optimism — is in place to help citizens recover from an enormous disaster, the likes of which our state has felt before (Andrew, 1992) and, as a state with more miles of coastline than any other, is almost certain to feel again.

There is right now no way for the state's underfunded Citizens Property Insurance Corp. — even coupled with private insurers — to cover losses of $50 billion to $100 billion if a major Florida city is hit. That's because not enough big insurers want to do business here without having some confidence they can require actuarially sound rates.

Consumers, especially coastal homeowners, like the happy-go-lucky approach and don't like the cruel reality that they've been getting by on the low end, given the natural high risk of peninsula geography.

The hapless Department of Insurance continues to promote feel-good figures that don't actually tell the truth: It says, for instance, that some $4.2 billion in fresh capital now stands behind new property insurance companies willing to do business here. What Florida Insurance Commissioner Kevin McCarty only barely acknowledges, though, is that these largely unregulated "surplus lines" specialize in a high-risk commercial properties, waterfront condos and other hard-to-insure properties — not mom-and-pop homeowners in the three-bedroom bungalow.

The reality is that these new domestic insurers, which Mr. McCarty contends will secure the state if, as expected, State Farm Florida Insurance Co., the number one residential insurer in the state, is driven out, are far fewer in number than he says and have only about $208 million available to cover losses for regular, everyday property owners. And about a quarter of that is through a dubious state loan program, the Capital Build-Up Incentive Program, according to detailed research of the industry this summer by the *Gulf Coast Business Review*.

Mr. Proctor, who is chancellor of Flagler College when not working as a state legislator, said he expects to reintroduce the Consumer Choice Act insurance bill, which was vetoed by the governor this spring — an act that was not challenged with an override even though 86 percent of lawmakers supported it. HB1171 was, in short, an effort to stabilize our property insurance environment by opening up competition, allowing rates more true to actual risk.

Sen. Mike Bennett, R-Bradenton, is championing this reform in the state Senate, where president Jeff Atwater, R-North Palm Beach — a 2010 candidate for chief financial officer — ought to be feeling enormous pressure to do something true and honest about insurance. If he doesn't confront the problem while leading the Senate, he'll have it right square in his lap if he wins the CFO's job next year. Uncomfortably, maybe catastrophically so if our four years of grace don't extend to five or six.

If the large insurers like State Farm are driven out, if the state's Citizens Corp. remains underfunded and if those new surplus-line companies with little appetite to insure everyday properties are all that citizens have to rely on, Florida is indeed living on borrowed time. And, regrettably, most politicians are playing the game: telling voters what they love to hear, but not what they need to know.

Editorial

OUR OPINION

Insurance chief's numbers amount to fuzzy math

Insurance Commissioner Kevin McCarty and Gov. Charlie Crist insist the state's homeowners insurance market is resurging.

Their proof: Forty new companies have come into the state since 2006, bringing with them nearly $5 billion in capital.

McCarty used these numbers during the legislative session to argue against a bill that would have allowed well-capitalized insurance companies to sell homeowners insurance at unregulated prices. The new companies and new capital, he said, would increase homeowners' options, negating the need for the legislation.

The trouble for McCarty, and by extension, Crist, is the numbers don't add up.

Crist, sticking to the simplistic message that more carriers have come into Florida and insurance rates are coming down, vetoed the legislation last month. He complained the bill, which passed overwhelmingly, was anticonsumer and would lead to price gouging.

Skeptics of the governor's position, including the bill's sponsors, Rep. Bill Proctor, R-St. Augustine, and Sen. Mike Bennett, R-Bradenton, questioned the numbers, and Chief Financial Officer Alex Sink asked McCarty for an explanation. He appeared at a Cabinet meeting this month with more detailed information, including the fact some $600 million in new capital has been added to the homeowners market since 2006. And half of that money comes from regulated companies that received a subsidy for doing business here.

The remaining $4.3 billion comes from unregulated coverage of high-risk properties such as condominium or apartment complexes and mansions on the beach. The new capital may have shifted properties out of the state-run Citizens Property Insurance Corp., but it just doesn't benefit the typical homeowner.

McCarty tried to shift the discussion, saying that after the 2004 and 2005 hurricane seasons, Florida's commercial lines were in big trouble. That's true, but it's not necessarily relevant to the discussion about increasing homeowners' options.

Although he got off easy from the three Republican members of the Cabinet, McCarty left the impression he has finessed the numbers. Certainly, he implied the new capital helped the homeowners' market.

Now two lawmakers from the House insurance policy committee have asked Chairman Pat Patterson to "invite" the insurance commissioner to appear before the committee. Reps. Scott Plakon. R-Longwood, and John Wood, R-Haines City, want McCarty to "clarify" his position.

There are two fundamental issues that need addressing.

First, although McCarty and the governor may not, strictly speaking, have claimed that the new capital would be available to assist residential property owners, that is certainly what they implied.

Neither McCarty's letter making his recommendation to the governor nor Crist's explanation of his veto mentions the dependency on high-risk coverage companies that are not admitted carriers in Florida.

McCarty needs to explain how Florida has a rejuvenated market when the smallest amount of capital is coming from companies fully regulated by the state – the situation the vetoed bill was trying to rectify.

He must explain how he could argue against a bill that would have allowed the State Farms, All States and Nationwides of the world to sell traditional homeowners policies at financially sound but unregulated rates and then applaud surplus lines companies for bringing new capital by charging largely unregulated prices.

Lawmakers and their constituents deserve honest answers.

NEWSHERALD.com
PANAMA CITY

EDITORIAL: Numbers don't add up

August 17, 2009

Gov. Charlie Crist and Insurance Commissioner Kevin McCarty have argued that Florida doesn't need legislation aimed at attracting more private property insurers because the market already is doing that. They claim that since 2006, 40 new insurers have injected more than $4 billion in capital into the state.

Those figures sounded fishy to supporters of a bill that Crist vetoed in June, the "Consumer Choice Act," that would have allowed large, highly capitalized insurers to sell homeowners policies whose premiums are unregulated by the state. They found a sympathetic ear in Chief Financial Officer Alex Sink, who at a Cabinet meeting last month asked McCarty to clarify "this whole $4 billion issue" by submitting a fresh analysis.

Last week, McCarty's numbers came in — and they still don't add up.

The "new" numbers confirm what critics initially claimed. Of the $4.9 billion in new insurance capital the state has seen since 2006, only $600 million of it can be attributed to homeowners policies. And of that underwhelming total, less than half comes from regulated insurers who did not receive a subsidy to do business here, what the state calls "capital buildup funds."

That's an important distinction, because it's not genuinely private capital if taxpayers are padding it.

The vast majority of that $4.9 billion — nearly 88 percent — belongs to so-called surplus lines of insurance, which are reserved for unique and high-risk properties, such as industrial tankers, apartment complexes, expensive boats and cars, even baseball pitchers' arms. That money is not accessible to the average Joe looking to insure his three-bedroom ranch-style home, so it shouldn't count as somehow boosting the homeowners market.

Here's the kicker: Those surplus line carriers are not subject to state regulation in areas such as price. That's exactly the freedom that the Consumer Choice Act would have extended to large companies to sell traditional homeowners policies as a way to entice them back into Florida and give folks another alternative to the state-run Citizens Property Insurance Inc.

Not surprisingly, none of this fazed Crist, who insisted that the figures supported his contention that the Consumer Choice Act was unnecessary. Incredibly, though, Attorney General Bill McCollum, also a member of the Cabinet (and the leading Republican candidate to replace Crist as governor) praised McCarty's report as portraying an optimistic picture of Florida's property insurance market. That whizzing sound McCollum heard was the point flying directly over his head.

McCarty's latest report proves that the private homeowners insurance market isn't growing anywhere near as much as the governor and commissioner have claimed. At best, they are guilty of a gross exaggeration and obfuscation; at worst, they outright lied.

Voters should take that into account when deciding whether Crist should be Florida's next U.S. senator. McCarty, though, is appointed. He should be fired for promoting such misleading information. Unfortunately, that would require that both the governor and the CFO agree to the commissioner's removal — and there's no way Crist is going to throw McCarty under the bus. The commissioner will keep his job, but who's going to listen to him the next time he uses statistics to bolster a point?

This should be all the ammunition the Legislature needs to override the governor's veto and pass the Consumer Choice Act.

St. Petersburg Times

Florida insurance numbers deceive

Published Friday, August 14, 2009

It was bad enough to learn earlier this summer that the overwhelming majority of $4.9 billion in new capital in Florida's property insurance market — a number trumpeted relentlessly by Gov. Charlie Crist — had come from unregulated carriers. But here's an even more shocking number: $277 million. That's the paltry amount of capital provided by regulated companies that didn't get a taxpayer handout to set up shop in the state.

State lawmakers never heard that fact as they contemplated insurance reform during the last legislative session. Instead, they got relentless spin from Crist and Insurance Commissioner Kevin McCarty implying that the private homeowners insurance market was on a healthy rebound. Their pitch, in hindsight, was nothing less than deception.

Florida's property insurance crisis is complex. And it's hard to say, had McCarty and Crist been forthright in the numbers, what impact that would have had during the 2009 legislative session. Lawmakers reduced the state's hurricane exposure by increasing rates for state-run Citizens Property Insurance Corp. and cutting the level of reinsurance the state would offer to all retail insurers.

But sound policy requires honest information. While Crist might be expected — unfortunately — to twist information for political cover, McCarty's job is to be the honest broker for Floridians who count on his office to regulate the industry in their interests. What's more, he works not just for Crist, a Republican, but also for the Cabinet, including Chief Financial Officer Alex Sink, a Democrat, and Attorney General Bill McCollum, a Republican — the two leading candidates for governor.

After a *St. Petersburg Times* story on the subject, Sink raised the specter last month that McCarty's staff had masked the true makeup of Florida's new insurers. She demanded the regulator provide a better accounting.

The result, released last week, shows just 5.6 percent of the new capital since January 2006 comes from regulated insurers who did not get a state handout to do business here. Another 6.6 percent is from regulated insurers who received either a state loan or payments for accepting former Citizens customers. But 87.8 percent of the new insurance capital came from "surplus lines carriers," companies that are not subject to state regulation in areas such as price, coverage or customer service.

Last week, Crist seemed to want to simply cover over these details, evoking the reduction in property insurance costs for some homeowners. McCollum appeared to miss the point altogether, saying, "I think this is a very positive report, and I appreciate it." Despite McCarty's deception, his job appears secure as long as Sink is the only one to object to his behavior.

Thanks to Sink, at least Floridians know the facts: Just 5.6 percent of the new capital is a purely private investment from insurers willing to abide by the consumer protections afforded by regulation. That indicates the private insurance market is not growing nearly as well as the governor and the state insurance commissioner suggest.

GULF COAST
Business Review
The Daily News Source for Gulf Coast Business Leaders

McCarty’s Camouflage

By: Jay Brady | Government Editor

Insurance Commissioner Kevin McCarty touts $4.2 billion in fresh capital as proof of a dynamic homeowners' insurance market. But the Business Review found it's really only $208 million — and even that's with taxpayers' help.

With State Farm Florida Insurance Co. exiting the state, Florida Insurance Commissioner Kevin McCarty wants anyone who will listen to believe everything's fine.

So much so, the commissioner supported the governor's veto of the Consumer Choice Act insurance bill, much to the chagrin of the bill's sponsors and the 86% of legislators who voted for it. The sponsors are considering a veto override.

The bill would have allowed about 40 bigger, better capitalized companies freedom to set their own rates under specified conditions. Consumers would have more choices.

In support of the veto, and as his evidence of a growing and vibrant property insurance market, McCarty points to his list showing $4.2 billion of new capital from 40 companies added to the Florida homeowners' property insurance market since Jan. 1, 2007.

The list needs a huge asterisk.

Close examination shows only $208 million — 5% of the claimed amount — is new capital from only 11 companies actually writing homeowners or mobile home policies. And $40.5 million of that small total comes from taxpayers through a state loan program.

In other words, the state's homeowners insurance market is nowhere near as healthy as top state officials claim.

'Emerging revelations'

The Business Review's assessment of the 40 companies on the list provided by the Office of Insurance Regulation shows 92% of the capital, $3.8 billion, comes from little regulated surplus lines carriers.

Such carriers do not provide insurance to average Florida homeowners, but instead insure high-risk commercial and industrial properties, waterfront condominiums and others for which property insurance cannot be obtained conventionally.

Many of these new companies are not writing homeowners or mobile-home insurance. A spokesman for Main Street America Protection says the company has no plans to do so, either.

On top of this, insurance agency executives have told the Business Review they have serious concerns about the financial stability of the new capital companies and their ability to service claims despite most of them having "A" ratings from either A.M. Best or Demotech, two major ratings agencies.

In his May letter to McCarty, state Sen. Mike Bennett, R-Bradenton, states that the 40 companies McCarty is touting “are nothing more than the second coming of the now defunct ‘Poe Insurance Group.’”

Bennett has called on Gov. Charlie Crist to fire McCarty. And in a joint statement from Bennett and Rep. Bill Proctor, R-St. Augustine, they call on McCarty to explain how the state will insure payment of claims should a hurricane strike a major city with insured losses of $50 billion to $100 billion.

In a July 1 letter to Crist, Proctor refers to what he calls “emerging revelations” that the capital added by these companies is not as advertised, writing, “… I am wondering whether this disturbing information was available at the time the decision was made to veto the consumer choice bill.”

Proctor says he has not yet received a response from the governor.

Now more keenly aware of the phantom capital, Proctor says, “I’m curious how many are bonafide insurance companies and how many are investment companies. It’s something I’m going to look at.”

More camouflage

McCarty’s office has gone a step further to bolster the numbers. A new spreadsheet sent to the Business Review adds in 2006 figures from 14 more insurance companies. Those companies entered the market for homeowners or commercial residential that year — what McCarty’s office says is another $1 billion in new capital — raising the total new capital figure to $4.95 billion.

But the January 2007 date had been the starting period for new companies because that was when major rate reductions occurred that are driving companies such as State Farm out of the state.

What’s more, an examination of the 2006 numbers also reveals more number-massaging.

One company, for instance, accounts for nearly 70% of the $785 million of new capital attributable to 11 homeowners’ policy companies, but it only writes 1% of this group’s policies. Another $156 million of capital comes from two surplus-line companies, which typically do not write homeowners’ policies.

And a company listed as writing homeowners policies was misclassified. Instead, the company’s true line of business is commercial residential (apartments, condos and dormitories). By being misclassified, American Capital Assurance Corp. inflated the homeowners list by $49 million.

An examination of the other 18 companies classified as either homeowners/commercial residential, commercial/commercial residential or commercial/residential, only one was found to be writing policies tied to dwelling units.

But that company, American Coastal Insurance, shows a 2008 year-end policy count of 1,474 — not enough to register more than 0.0% in the state's list of 5.1 million residential policies.

Five other companies in the list of 54 are classified as commercial lines of business and account for $1.13 billion, nearly a quarter of the $4.95 billion combined total for the two years.

In sum, of the 54 companies touted as new property insurers since 2006, only 11 of those brought new capital into the market to write homeowners or mobile-homes policies. And these 11 account for only $208 million of new capital.

McCarty did not respond to requests for comment for this story.

McCarty's office points out that there are 210 companies writing property insurance in Florida. What it doesn't say is that the vast majority of these companies are tiny to insignificant players. Two companies — State Farm Florida and Universal Property and Casualty — account for nearly 27% of the policies and nearly 25% of the almost $7.2 billion of premium written statewide.

And State Farm is leaving.

'Falling off the cliff'

Also deserving an asterisk is the $40.5 million, 20% of the $208 million of capital, courtesy of state loans for three of the 11 companies.

In 2006, seeing a need to encourage more residential property insurance covering the risk of hurricanes and to hold down premium increases in the state, the Legislature created the Insurance Capital Build-Up Incentive Program.

This $250 million program provides capital for 13 companies in the form of loans called surplus notes. State rules say the notes are to be considered assets of the insurance companies, not liabilities, even though they are loans.
The companies pay only interest for the first three years.

A big concern is that companies receiving the incentive are required to take on a minimum of $2 of net written premium for each dollar of policyholders' surplus (assets less liabilities) — double the rule of thumb for industry writing ratios and triple the average over the last 50 years.

So these companies are being required by the state to take on more and riskier policies — policies coming from the state's Citizens Property Insurance Corp., State Farm or others reducing their property and casualty exposure.

The accompanying table shows several companies with net premium-to-policyholders' surplus ratios exceeding 300% (more than 3-to-1). Experts say those with high ratings may be paying more for reinsurance or have other backstop financing arrangements.

But rather than take on more risk with more policies, 11 of the 13 companies chose instead to pay what are called "falling off the cliff" penalties of 4.5% on their notes when they fall below a 1.5-to-1 ratio of net premiums-to-surplus. (Net premium is essentially gross premium less reinsurance costs.)

The 11 companies have incurred that 4.5% fine 42 times in the past two years, suggesting these companies would rather be fined than take on the extra risk of the higher ratio.

In fact, three of the new companies that started with state funding have written only 26% of the policies they estimated they would when they applied for the notes.

"A regular banker probably wouldn't have made any of these loans," says Jack Nicholson, the state's chief operating officer of the Florida Hurricane Catastrophe (CAT) Fund.
Nicholson says it's too soon to decide the outcome of the incentive program, he is pessimistic. "It's not quite as effective as it's been anticipated to be, and other things may hamper it in the future," he says.

No appetite for Florida
State Farm Florida Insurance President Jim Thompson knows where his company is going after learning in late June that Crist had vetoed the Consumer Choice Act and that the company's financial strength rating had been downgraded to B (Fair) from B+ (Good) by A.M. Best. The company's outlook was also downgraded to negative from stable.

State Farm Florida is far and away the number one residential property insurer in the state with 17.7% of residential policies and 21.9% of homeowners' policies.

In a June 25 letter addressed to Proctor and Bennett, Thompson writes, "Unfortunately, State Farm Florida must continue with its plan to discontinue its property insurance lines in the state … Net worth for State Farm Florida has declined by approximately $200 million since it first requested its rate increase less than one year ago, and the state has blocked the company's efforts to reverse its rapidly deteriorating financial condition."

In the letter, Thompson comments on Crist's veto, writing, "… the bill would have attracted more capital to the state — capital that's sorely needed to help protect homes and other property in Florida when the next hurricane hits our state."

According to Nicholson, a Category 3 storm hits Florida an average of once every three years. With no major storms the last two years, we're due.

Jeff Grady, president of the Florida Association of Insurance Agents, agrees that the state is not telling the whole story about the new companies. He says, "Every single one of them has a very limited appetite for coastal exposure. Most got started by taking out Citizens' policies that were coastal, so they're trying to balance their books with less coastal exposure."

Grady and the agents he represents are also worried about being sued if these companies go under — which he thinks is a possibility.

But so far the governor and the insurance commissioner aren't listening. Their hurricane strategy is obvious: It's the Katrina model — when in need, go begging to Washington.