

First Steps toward Restoring Florida's Insurance Market

Talking Points

1. Florida's current property insurance system sits on three unsteady legs—Florida Citizens Property Insurance Corporation, Florida Hurricane Catastrophe Fund (the “Cat” Fund), and the private insurance industry—yielding a market with high rates, little consumer choice, extensive government intervention, and severe risk to the state's taxpayers.
2. Florida Citizens Property Insurance Corporation is a state agency that serves as Florida's largest property insurer. The Citizens model essentially imposes a rate cap on all property insurance rates in Florida; however, this effort to control rates exposes the state to significant financial risk despite its political popularity.
3. Florida Hurricane Catastrophe Fund provides mandatory partial reinsurance (backup coverage) for all insurers operating in Florida and serves as the only source of reinsurance for Citizens. As of February 2008, the Cat Fund represents a potential liability of \$32 billion for the state of Florida and ultimately its citizens.
4. Property insurance rates in Florida have not fallen as a result of the 2007 decision to double the size of the Cat Fund, due in large part to private insurers' discomfort with the level of reinsurance provided by the Cat Fund as well as their lack of confidence in its ability to sell sufficient bonds in the event of a major storm. In response to these concerns, insurers have purchased the mandatory Cat Fund coverage and then private backup coverage as well.
5. Florida's \$32 billion proposed bond issue (to bail out the Cat Fund in the event of a major storm) would be triple the largest state bond issue anywhere in the country to date. Special taxes, called “assessments,” on every insurance policy in the state—not just property insurance policies—would be required to payoff the debt.
6. The proposed “Consumer Choice” plan would abolish Citizens and the Cat Fund as they currently exist and replace them with a bifurcated market composed of a state-run Windstorm Insurance Program and a regulated, but not explicitly price-controlled, private market. Consumers would have the choice of buying lower-priced property insurance policies through the Windstorm Fund, which would remain assessable for any fund deficits, or buying higher-priced policies through private insurers, which would not be subject to any further taxes.
7. The proposed “Cat Fund Reduction” plan would shrink the size of the fund by \$3 billion immediately, thus shrinking the potential size of special assessments. Building further on this proposal, continued decreases in the size of the Cat Fund could be achieved by cutting the same amount every year for 10 years.
8. The proposed “Commercial Property Exemption” plan addresses inequities in Florida's current property insurance system that make the state's business climate less hospitable and potentially threaten Florida's job growth and overall economy.
9. Basic insurance principles to consider when evaluating proposed reforms: Insurance should be based on risk; insurance is not disaster relief; insurance should influence development; insurance should work through private means as much as possible.
10. There is no single, overnight cure for repairing Florida's seriously damaged property insurance market; however, there are several small steps currently under discussion that could begin moving things in the right direction.