

This is a compilation of articles and announcements placed in one place as a convenience for readers of my blog and as a reference to a specific post relating to Sinkholes, Citizens rate request and a protest rally.

Editorial



By TBO.COM

Published: August 07, 2011

It doesn't take a CPA to recognize that Citizens Property Insurance Corp. is in a big hole when it comes to providing full sinkhole coverage and has to find a way to dig out.

The taxpayer-subsidized "insurer of last resort" – now the state's biggest property insurance carrier – last year reported \$245 million in sinkhole claim losses while collecting just \$32 million in sinkhole premiums. Since 2006, Citizens had nearly \$500 million in sinkhole losses stemming from more than 6,500 claims – the vast majority in Hernando, Pasco, Hillsborough and Pinellas counties.

Over the last nine years the number is nearly \$1 billion

But now it seems Citizens wants to immediately recoup all its losses by proposing cruel rate increases that average nearly 430 percent statewide. Many policyholders in the Tampa Bay area, including the city of Tampa, would likely faint when receiving their bills, should the proposal be approved by state regulators. Residents would be facing increases of more than 2,000 percent.

This is a heavy-handed approach that needs to be tempered, especially in the Tampa Bay area, part of which is in "sinkhole alley." If the rate proposals are adopted, the likely result would be that the many adversely affected property owners would forgo full sinkhole coverage, putting their financial well-being and property investments at risk – unless they're wealthy and can afford to make repairs themselves.

In addition, you can bet private companies are watching and will take the Citizens' approach should the Office of Insurance Regulation approve the proposal. That could prove disastrous for all homeowners in Florida who want full protection from sinkholes – not just the built-in coverage that kicks in if their homes are swallowed by a sinkhole and become uninhabitable.

If the goal of insurance companies is to get out of providing sinkhole coverage altogether, the state should not allow it.

Some rate adjustments are undoubtedly necessary, but the increases being eyed by Citizens are absurd. At the least, any rate increase deemed necessary should be phased in over a number of years – not slapped on policyholders at once.

For many of these residents, comprehensive sinkhole coverage is required by banks and mortgage companies. The rate increase, for some, could mean an additional \$4,000 a year. Yes, Citizens needs to charge actuarially sound rates to protect taxpayers and customers, but the state must consider the financial hardship on Floridians.

Here's another problem: The Legislature has capped at 10 percent any annual increase in Citizens' policyholders' standard rates, but lawmakers last session exempted additional sinkhole coverage from the cap. This is wrong. A cap should apply to annual sinkhole premium increases as well, to protect homeowners from hardship.

Citizens and state regulators also need to be patient and find out whether a new property insurance law, which took effect in July, will work. It is impossible to know yet.

Several insurance rules have been dramatically changed – including tightening the definition of what constitutes a legitimate sinkhole claim and reducing the time property owners have to file claims for hurricane, windstorm and sinkhole damages from the date of the event.

Of particular importance are changes that limit sinkhole coverage to primary structures only, and requires owners to repair damage. If the repairs cannot be done within the limits of the policy, the company can either pay the policyholder the limits or provide the additional money to complete the repairs.

These are tough – and in some cases, unfair – restrictions. Suppose you have paid sinkhole premiums for years and then your home is seriously damaged by a sinkhole. The home's value will plummet, yet the Legislature is mandating it be repaired – regardless of the financial consequences for you. It would hold owners hostage in their homes.

There is also a disturbing bias against property owners in Tallahassee. Many lawmakers and others behind sinkhole insurance reform constantly claim that widespread "fraud" and "abuse" is afoot, pointing out that some property owners are winning a sinkhole lottery and buying boats and other items instead of fixing their homes. If so, where are the arrests and prosecutions, and why aren't lawmakers holding Citizens and other insurance companies accountable for not doing their due diligence?

Why are insurance companies so willing to pay testing and sinkhole remediation companies high fees – which can easily exceed more than \$100,000 per home? We know of one instance where a testing company was paid \$50 an hour for providing a "monitor" at a site just to count cement trucks and monitor pressure on gages during the grouting process. Nice way to make a living.

Lawmakers and other forces behind sinkhole reform conveniently overlook that Citizens and other insurers do not have to pay claims if no evidence exists of a sinkhole and that banks and mortgage companies can mandate that any proceeds be used to repair homes.

But if this is all such a scam, why has Citizens paid so many claims, especially in the Tampa Bay region? Are their inspectors incompetent, or is "sinkhole alley" indeed "sinkhole alley"? It's clear that many of us live in sinkhole-prone areas, whether lawmakers want to believe it or not.

As we've said before, the state should not be in the property insurance business. But Citizens customers who have fully insured themselves against sinkholes have every right to file a claim. They are not the bad guys.

Higher premiums, not doubt, are part of the costs of living in a state where sinkholes are common. But while Citizens cannot continue paying sinkhole claims at this rate, it should not punish property owners with massive and sudden rate increases that would force many to drop their coverage.

Rally called to protest Citizens Property rate hike

By [CARL ORTH](#) | The Suncoast News

Published: August 6, 2011

NEW PORT RICHEY - Some Citizens Property Insurance Co. customers are saying they are fed up and they aren't going to take it anymore, a state lawmaker says.

Policyholders are planning to wave signs at a protest demonstration on Tuesday, Aug. 16, state Sen. Mike Fasano, R-New Port Richey, said.

The event is scheduled to take place 4 to 6 p.m. in front of the West Pasco Government Center, 7530 Little Road.

Some Citizens policyholders are up in arms over a proposal for a fourfold average increase in rates for optional sinkhole coverage, Fasano said. Rate increases for Citizens' main homeowner insurance policies remain capped at 10 percent a year.

A predicament faces certain homeowners in West Pasco whose mortgage holders require the full sinkhole coverage. The main policy covers only catastrophic ground collapse that makes a home uninhabitable.

State Rep. John Legg, R-Port Richey, has asked the Florida Office of Insurance Regulation to consider delaying the Citizens Property sinkhole rate increases.

Legislators this year made changes to combat fraud in sinkhole claims that could help reduce Citizens Property's losses from sinkhole payouts, Legg has said.

"We recognize that our rate need for sinkhole coverage is enormous," Citizens spokesperson Candace Bunker wrote in an email response to inquiries from The Suncoast News.

"However we are required by law to implement actuarially sound rates for sinkhole coverage and do not believe the law would permit us to delay moving forward with this rate filing," Bunker explained.

In 2010, Citizens collected about \$32 million in sinkhole earned premiums from homeowners, Bunker reports. Projected losses and related expenses for the same period are approximately \$245 million.

The matter rests in the hands of Florida Insurance Commissioner Kevin McCarty. McCarty can choose to phase in the increase over a three-year period.

In a letter to McCarty, Legg wrote that he "respectfully requests that you conduct public hearings in the regions that were adversely affected in order to fully assess the magnitude that these rate increases would have on Florida homeowners."

"Also, there is a great possibility that private insurers may follow suit and ask for rate increases as well," Greg Giordano, Fasano's chief legislative assistant, said. "The legislation allows them to do the same."

Fasano invites all consumers to make signs and join the Aug. 16 rally. Some preprinted signs will be available to protesters, too. The Pasco example inspired other groups in Hernando and Citrus counties to organize their own protest rallies on the same day, Giordano pointed out.

"Floridians from across the state saw firsthand what we have been warning them of – that many of the legislators up in Tallahassee aren't putting their constituents first," Fasano wrote in an announcement about the protest.

In the meantime, Fasano has held numerous town hall meetings about ways homeowners can reduce insurance premiums. A page in Fasano's legislative newsletter, mailed last month, is devoted to insurance issues as well.

For more information, contact the office of Fasano at (727) 848-5885 or Policyholders of Florida at (813) 229-1000, ext. 226.

Citizens' Insurance board okays 'staggering' sinkhole rate increases

By [Janet Zink](#), Times/Herald Tallahassee Bureau TALLAHASSEE —

The board that oversees Citizens Property Insurance unanimously approved massive increases to sinkhole premiums Wednesday, saying the rate hikes — which could cost policyholders thousands of extra dollars — are necessary to cover the cost of sinkhole claims.

Sinkhole premiums would rise by an average of 429 percent under the Citizens proposal, though rates would rise more than 2,000 percent in some parts of the Tampa Bay area. The rate hikes, which surfaced Monday, still must be approved by the Office of Insurance Regulation. It is expected to schedule a rate hearing in Tallahassee.

The increases are on top of a proposed 8.8 percent average increase in nonsinkhole-related coverage.

Gov. Rick Scott, who has long said "fixing" Citizens is a priority, said the numbers are "staggering" but not surprising.

"Since before I was elected, I have warned that Citizens is in need of serious attention and would soon have to face a day of reckoning. This proposal is the unfortunate result of politicians playing politics for too long by keeping rates artificially low," he said.

Citizens officials say the increases are necessary because premiums collected don't cover the cost of payouts made for claims. In 2010, the company collected \$32 million in premiums but had loss-related expenses of \$245 million, Citizens chief financial officer Sharon Binnun told the board.

"Our rate need for sinkhole coverage is enormous," she said. "We're optimistic that the sinkhole claims will stem losses over time and help reduce premiums."

If approved, the rate increases mean the average premium for a sinkhole policy in Tampa would increase from \$156 to \$3,651. In coastal Pasco County, rates would increase from \$1,270 to \$3,598. In coastal Hernando County, premiums would soar from \$1,356 to \$5,734.

Binnun said the state-run insurer is working to develop plans so policyholders can pay premiums on a semiannual or quarterly basis.

Sen. Mike Fasano, R-New Port Richey, who unsuccessfully fought 2011 legislation that allows Citizens to massively boost its sinkhole insurance premiums, is calling for statewide hearings.

"The economic impact on homeowners will be devastating," Fasano wrote in a letter to Kevin McCarty, insurance commissioner. "In light of these almost incomprehensible rate increases, I

respectfully expect that all Floridians be given the chance to have their voices heard on this issue before the Office of Insurance rules on the application. Hearings held throughout the state, especially in those areas which will receive the highest rate increases, must be held before the application is given consideration."

Janet Zink can be reached at jzink@sptimes.com or (850) 224-7263.

Hot spot for sinkholes

Sinkhole claims to insurance

from 2006 to 2010. The second column is percent of statewide total, which was 24,671. The Tampa Bay area had 72 percent of the total claims in the state.

Hernando	6,036	24.5%
Pasco	5,932	24.0%
Hillsborough	4,450	18.0%
Pinellas	1,466	5.9%

Source: Florida Office of Insurance Regulation

Proposed increases at a glance

Citizens Property Insurance released proposed rates for

sinkhole insurance Monday. Here is a look at what average rates could be:

Region	Current average	Proposed average	Percent increase
Tampa	\$156	\$3,651	+ 2,239%
Hillsborough remainder	\$260	\$3,651	+ 1,304%
Hernando coast	\$1,356	\$5,734	+ 323%
Hernando remainder	\$1,084	\$6,192	+ 471%
Pasco coast	\$1,270	\$3,598	+ 183%
Pasco remainder	\$1,475	\$4,440	+ 201%
Pinellas coast	\$3	\$72	+ 2,046%
St. Petersburg	\$38	\$100	+ 164%
Pinellas remainder	\$243	\$256	+ 5%

[Last modified: Jul 28, 2011 07:36 AM]



[Click here for reuse options!](#)

Copyright 2011 St. Petersburg Times

CFO Atwater wants sinkhole insurance rates boosted slowly

Posted: August 3, 2011 - 12:05am



Jeff Atwater

Advertisement

By [BRENT KALLESTAD](#)

The Associated Press

TALLAHASSEE -- Chief Financial Officer Jeff Atwater urged state insurance regulators Tuesday to consider an affordable "glide path" for homeowners seeking to buy sinkhole insurance from Citizens Property Insurance Corp.

Atwater questioned Insurance Commissioner Kevin McCarty about the possibility of phasing in any rate increase.

Last week Citizens' board said it would ask regulators to approve a rate increase for sinkhole coverage by an average of 430 percent and even more in some areas. Homeowners in high-claim areas, mostly around Tampa Bay, could be hit with rate increases of as much as \$5,000 to keep their existing coverages.

"We should not put that burden on these citizens right away," Atwater said following the Cabinet's first meeting after a six-week summer break. "There should be far less of an increase."

McCarty told Gov. Rick Scott and the Cabinet that while the seemingly exorbitant rates sought by state-backed Citizens may be actuarially sound, his department would consider a full range of

options on the company's request, including phasing in the increases to soften the financial blow for consumers.

In 2010, Citizens received about \$32 million in premiums for sinkhole coverage with ultimate losses and loss-related expenses estimated to total \$245 million. Sinkholes are caused when the ground gives way due to erosion, the collapse of a cave roof or the lowering of the water table.

A new law passed earlier this year allows Citizens, which insures more than 1.4 million homes and businesses, to charge whatever it takes to pay for sinkhole claims. The company's regular property coverage on homes and businesses cannot be increased by more than 10 percent annually.

But Atwater doesn't believe policyholders should be forced to pay 10, 20 or 30 times more on their premium all at once.

"There needs to be a real different look-see," said the former Senate president who was elected CFO last November. "There should be some glide path in place. Why not test it for a year or two at 10 percent or another number."

The Legislature created Citizens in 2002 to provide insurance to homeowners in high-risk areas and those who couldn't find coverage in the private market.

Fasano leads Pasco County march on insurance rates

The Associated Press

TALLAHASSEE, Fla. -- State Sen. Mike Fasano is rallying Florida policyholders to join him in front of the Pasco County Government Center next Tuesday in a sign-waving protest of the proposed sinkhole rate increases sought by Citizens Property Insurance Corp.

Fasano is a New Port Richey Republican and outspoken critic of a Senate bill that passed earlier this year allowing Citizens to take any cap off sinkhole rates. He chose Pasco County for the protest since it has been ground zero for much of the recent sinkhole activity.

Citizens' board last week said it is seeking rate increases on sinkhole policies by 30 or 40 times in some cases.

Former Insurance Consumer Advocate Sean Shaw is also participating in the protest scheduled between 4 p.m. and 6 .m. on Tuesday.

Read more: <http://www.miamiherald.com/2011/08/04/2344606/fasano-leads-pasco-county-march.html#ixzz1UAcHxWq9>

News Chief (Winter Haven, FL)

Editorial

The Sinkhole of Citizens

July 31, 2011

Citizens Property Insurance was formed in the last decade to help people stay in their homes.

The insurer-of-last-resort was created by the Legislature after private homeowner insurers started leaving the state in the wake of a series of hurricanes that hammered Florida, including Polk County, creating massive insurance claims.

Now, thanks to the Legislature, Citizens could be responsible for Floridians losing their homes because of the problem of sinkholes and the cost of insurance coverage.

The trouble, as Citizens, other insurers and some legislators saw it, was that too many people were making sinkhole insurance claims, especially people in the Tampa Bay area.

Many of the claims, the argument went, were, while legal, an abuse of the system and cost Citizens too much money. In 2010, Citizens collected \$32 million in sinkhole premiums but paid out more than \$245 million in claims, according to a story from the News Service of Florida.

Backers of the change have argued that many claims are questionable, such as minor cracks in walls being blamed on sinkholes when they could have been caused by normal settling of the house. Another cited abuse was claims being filed years after the damage occurred. Those are certainly problems.

But driving people from their homes by raising premiums thousands of dollars is not the answer. In Pasco County, for instance, Citizens expects the average sinkhole premium rise from \$441 a year to \$4,017. That is high enough to break the financial back of a family struggling to survive in this weak economy.

The new law made such changes as requiring claims to be filed within two years of the damage and making it hard for claimants to win a settlement.

Those changes should be given a chance to work before raising premiums to such a ruinous height.

Perhaps part of the solution is to not break sinkhole coverage out of general insurance coverage, but to treat it much like hurricane damage is now handled.

Hurricane damage is not covered by homeowner insurance the same way that other damage is handled, such as from fire or hail.

The homeowner is responsible for a greater percentage of the financial burden in the case of hurricanes.

If that same logic is applied to victims of sinkhole damage, unwarranted claims could be made to drop, saving Citizens from such high losses in that category and keeping Floridians in their homes. By CATHERINE WHITTENBURG | The Tampa Tribune

Published: July 29, 2011

[» 0 Comments](#) | [Post a Comment](#)

TALLAHASSEE --

A Pasco County lawmaker hopes to convince state regulators to deny — or at least delay — massive increases of Citizens sinkhole insurance rates until a new law has a chance to cut the insurers' losses.

Board members of the state-run Citizens Property Insurance Corp. voted Wednesday to approve the increases for optional sinkhole coverage, including hikes of more than 2,000 percent in some Tampa Bay areas. The state Office of Insurance Regulation must approve the proposed rates before they can take effect.

Thursday, State Rep. John Legg said he plans to ask the insurance regulator either to deny the rate increase request or suspend consideration of it for a while. He said the state-run insurer's request is premature because it does not take into account the potential impacts of a new law aimed at preventing fraudulent claims.

"Citizens needs to wait to see what impact these provisions have on the market, as it relates to sinkhole claims," said Legg, R-Port Richey. "I believe the legislation we passed will dramatically curtail fraudulent claims."

Sinkhole coverage is an optional line of insurance, though some mortgage lenders require it. While standard property insurance must cover "catastrophic ground collapse" — an extreme event that renders a property uninhabitable — optional sinkhole insurance covers lesser damage, such as cracks in a wall.

Insurers told lawmakers this spring that frequent, inflated and outright fraudulent sinkhole claims are creating a crisis in the industry.

The Legislature responded with a bill that narrows the definition of a legitimate sinkhole claim to structural damage of the principal building on the property. Senate Bill 408 also limits the window for filing a claim to two years and lets insurers require that policyholders spend their entire claim payout on repairs.

"These issues will dramatically decrease the number of sinkhole claims being made that are fraudulent, which I believe is the chief cost driver," Legg said. "Citizens has put the cart before the horse here."

A spokeswoman for Citizens did not respond to a request for comment.

Ironically, the anti-fraud bill cited by Legg as a reason to deny the rate increases is the same legislation that enabled Citizens to request them in the first place.

Before passage of SB 408, Citizens gradually was raising rates by as much as 10 percent annually to cover losses. But SB 408 exempted optional sinkhole insurance from that "glide path" to actuarially sound rates, allowing Citizens to raise those rates dramatically and immediately.

Sen. Mike Fasano, who fought SB 408 in vain this spring, scoffed at Legg's use of it to argue against the rate hike.

Fasano, R-New Port Richey, said his fellow lawmakers "should have realized ... that the anti-consumer bill they voted for took away the (rate) cap. They should have known this was going to happen."

If lawmakers like Legg truly were focused on combating fraud, Fasano said, "they should have never taken away the cap until they knew whether the bill was going to work or not."

By law, the Office of Insurance Regulation must hold a public hearing on the Citizens rate request because it exceeds a 15 percent increase. Hearings customarily take place in Tallahassee, but Fasano has asked Insurance Commissioner Kevin McCarty to hold a series of them across the state.

Spokeswoman Brittany Perez said the office would take Fasano's proposal "under advisement," but could not comment further before receiving the filing from Citizens, which plans to send the homeowners portion next week.

Interested residents who cannot attend the Office of Insurance Regulation's hearing — or hearings — can email comments to ratehearings@flor.com, typing "Citizens" in the subject line. The office will post the scheduled hearing date on its website, www.flor.com.

No Middle Ground in Florida's Sinkhole Rate Debate

August 4, 2011 | [Subscribe Now](#) By [Joan E. Collier, PropertyCasualty360.com](#)

Appointed and elected officials, property owners, and insurance groups in Florida continue to take sides in the ever-widening sinkhole debate. [Citizens Property Insurance Corp.](#), the state-

created insurer with almost 1.4 million policyholders, has proposed rate increases for sinkhole coverage that supporters say are necessary and opponents call grossly excessive.

By law, Citizens cannot raise its rates by more than 10 percent a year. However, legislators passed SB 408 during the 2011 session, which excludes sinkhole coverage from that cap.

[Sen. Mike Fasano](#), R-New Port Richey, was a vocal opponent of SB 408. In addition to the language concerning sinkhole rate increases, the bill specifically defines “structural damage” in an attempt to narrow the definition of a sinkhole loss. Additionally, the bill requires a policyholder to pay 50 percent of sinkhole testing costs up to \$2,500 if the policyholder requests testing after an insurer denies the sinkhole claim. Further, sinkhole claims must be filed within 2 years of the covered loss. Citizens has long struggled with inadequate rates overall, and supporters claim that SB 408 provides a means for its governing board to address at least one aspect of coverage.

Fasano remains irate and unmovable, and today announced a sign-waving protest campaign in front of the Pasco County Government Center. He is urging people to join him on August 16 from 4 to 6 p.m. to protest the proposed increases. Fasano also has asked [Gov. Rick Scott](#) and [CFO Jeff Atwater](#) to oppose the rate hikes and called for statewide hearings on the matter.

Why the Increase?

The proliferation of sinkhole claims in recent years has been staggering. In 2009, Citizens collected \$19 million in premium for the sinkhole activity peril and paid \$84 million in losses. In 2010, Citizens received about \$32 million in premiums for sinkhole coverage; ultimate losses and loss-related expenses totaled an estimated \$245 million. Over the past nine years, Citizens has paid out \$1 billion in sinkhole claims.

In an effort to right the ship, at the July 27 board of governors’ meeting, members approved a rate hike for sinkhole coverage that will culminate in a statewide average rate increase of 429 percent. Homeowners living in sinkhole-prone areas such as Sen. Fasano’s district in the Tampa Bay area could see increases of up to 2,000 percent, which has drawn the senator’s attention.

The new rates must be approved by the Florida Office of Insurance Regulation (OIR), and were a topic of discussion at the Aug. 2 meeting of the Florida Cabinet. Lisa Miller of Lisa Miller & Associates attended the meeting. What follows are excerpts from her account of the exchange between CFO Jeff Atwater and Insurance Commissioner Kevin McCarty:

CFO Atwater: I understand the objective of the legislature [in SB 408] and they were really going after the claims. There are honest sinkhole claims and there are manufactured sinkhole claims. Capital has left us and clearly this is devastating. There are mortgage players who want sinkhole coverage. I don’t know how many were taken by surprise [by the rate request]. You haven’t seen the filing? and you have probably seen the legislation. Did the legislation offer Citizens any choice and can you offer us guidance as to the process you go thru? There will be market change because the legislation went after the fraud ... the rate has to go into effect and at

the moment when the cap comes off immediately, none of us saw the magnitude. Is there an option or do you have an option and do you believe these are sound actuarial rate filings?

Commissioner McCarty: I appreciate your prefacing that we have not seen in the filing. Their rate filing is predicated on past experience and they do not contemplate the anticipate costs savings generated by the legislation. The legislation struck a balance about the availability of coverage and the option to buy it. The senate report and the OIR report shows Citizens only collected a small premium in relation to the losses. Part of what we take into the account is what will happen in the future. You touched on some very important points; one is the forced repair. We have evidence that says that 72 percent of the money is not going to fix the home. The fraud in the system may be reduced and the frequency of claims and those need to be taken into consideration—this is to not diminish the fact that there won't be a significant rate increase for Citizens.

No Middle Ground in Florida's Sinkhole Rate Debate

August 4, 2011 | [Subscribe Now](#) By [Joan E. Collier, PropertyCasualty360.com](#)

Atwater: Did Citizens have a choice to base the rate on past losses or future changes? By law, could they have had the choice to factor in the change.

McCarty: I believe that that was an option they could have exercised but the board has a fiduciary responsibility to factor in an actuarial rate as well. We will carefully study the rate filing. I think there is built into the statutory rate some discretion by Citizens and insurers.

Atwater: Is it common in your role for you to apply discretion that even if the filing had not offered the law change savings as an option?

McCarty: If the rate is supported by actuarial science and law then it is my obligation to approve it. I don't have the authority to limit a rate increase if it is supported by actuarial principles. I want to give credit to the legislature that tried to address the real need. One of the things we have to ferret out in this process is we must figure out what is the credit we give based on the relief SB 408 provides.

Atwater: The legislature had to boldly act by beating back the fraud and they did. All of us looking at this now have to look at those in the geography of sinkhole alley and will they benefit from the law in this ratemaking.

McCarty: Through the process of the rate filing the office will take into consideration the effects and impacts of the law. While the past experience is informing, rates are prospective and not retrospective.

As the uproar continues, Commissioner McCarty has tried to tamp down the rhetoric by repeatedly expressing his commitment to a balanced and deliberative approach to the rate request. While warning that an increase is inevitable, McCarty says he is prepared to phase in the hikes to soften the blow to homeowners.

Florida's new Insurance Consumer Advocate Robin Westcott also is in favor of incremental increases, and sent a letter to Citizens stating that view.

A New Board?

At an [earlier board meeting](#) on July 13, Chair Jim Malone dropped another bombshell when he suggested taking at least part of Citizens private. The idea quickly drew favorable responses from Gov. Scott and State Sen. Garrett Richter, R-Naples, the major architect of SB 408.

However, Citizens will have some new board members to debate the idea. Service terms for all eight members of Citizens' board of governors expired on August 1. Board members are appointed by the governor, the CFO, the Senate President, and the House Speaker. Each person appoints two board members, (one serves a 3-year term, the other a 2-year term). Thus far, [Speaker Dean Cannon](#), R-Winter Park, has reappointed Carlos Lacasa for a 2-year term and appointed Christopher Gardner for a 3-year term; [Senate President Mike Haridopolos](#), R-Melbourne, has reappointed Carol Everhart for a 2-year term and Tom Lynch for a 3-year term.

Gov. Scott and CFO Atwater have not announced their appointments.

The Miami Herald (Miami, FL)

Commentary

Sinkhole insurance abuse hurts us all

By John W. Rollins

August 1, 2011

The recent rate increases proposed by Citizens Property Insurance Corporation for optional sinkhole activity coverage, while eye-popping in a few regions, are not surprising to actuaries. We have observed the alarming trend in claims costs since the last big round of changes to Florida property insurance law - and observed the explosion of billboards and TV ads encouraging new claims.

Legislation enacted this spring (Senate Bill 408) did not generate these claims, nor the need for the rate hike - it simply authorized Citizens to address a problem that drains hundreds of millions of dollars annually from the coffers of the insurance safety net relied upon by millions of Floridians. By filing actuarially sound rates for this coverage, Citizens quantified the subsidy going to the abusive claimants pursuing large payouts for often minimal damage, often at the urging of public adjusters and plaintiffs' attorneys.

If the proposed Citizens sinkhole rate increase is not approved then nearly all policyholders in Florida will face sharply higher assessments when Citizens runs deficits.

Regulators demanded detailed claims totals from all Florida insurers while studying this problem in late 2010. Citizens' response shows it incurred over 6,500 sinkhole activity claims and paid nearly \$500 million in losses since 2006. Almost none of these claims were for "catastrophic ground cover collapse" - where a hole actually swallowed part of a dwelling. Citizens began separately charging for sinkhole activity coverage in 2007, and recently reported it incurred \$245 million in sinkhole losses against just \$32 million in sinkhole premiums in 2010.

Claim filings are nearly doubling annually, so trends indicate it can expect to incur thousands more claims in the coming year. Do the math and you will see the need for a substantial sinkhole rate increase that is not the result of controversial modeling, as with wind rates.

Some of the same legislators who vilify private insurers as unreliable and tout Citizens as the "people's insurance company" are now actively working to ensure it is starved of the premiums needed to support its promises to its policyholders.

This is puzzling. A better use of that energy would be to attack the factors driving spiraling costs, such as claims settlement laws.

Testimony highlighted abusive claimants who pocketed six-figure settlements with dubious evidence of loss and no responsibility to repair damage. But when Senate Bill 408 addressed the cost drivers behind the rate hikes, these legislators fought to kill rather than pass the reforms.

Critics say that private insurers may also ask for higher sinkhole activity rates mirroring Citizens request. With the hard data coming to light, is it any wonder private insurers are wary of writing policies with sinkhole activity coverage at almost any price - no matter what else might be attractive about the risk? It's easy to forget, but prior to the sinkhole claims explosion, insurers competed aggressively for Tampa Bay area business. Regulatory data shows Citizens market share has rocketed in the region only in the past few years. And remember, all policies must cover ground cover collapse - there is no danger of being uninsured for a true sinkhole loss.

It's reasonable to ask whether the recent claims law reforms may stabilize or even reduce actuarially projected claims costs, and to consider some restraint in applying the full effect of rate increases immediately. But rates send a signal to consumers about the risk. A move to simply suppress yet another facet of Citizens rates while enabling the "sinkhole lottery" to continue is bad for all Floridians, whether Citizens policyholders or those who are simply liable for Citizens taxes when it cannot meet its obligations.

About the author

John W. Rollins is an independent consulting actuary focusing on Florida property insurance and based in the Gainesville area. He has served as senior actuary at both Citizens and the Florida Farm Bureau.

johnwrollins@floridapropertyinsuranceactuary.net

[\[mailto:johnwrollins@floridapropertyinsuranceactuary.net\]](mailto:johnwrollins@floridapropertyinsuranceactuary.net)

SOURCE: <http://www.miamiherald.com/2011/08/01/2340797/sinkhole-insurance-abuse-hurts.html>
[<http://r20.rs6.net/tn.jsp?llr=q69aiodab&et=1106888086689&s=376&e=0013Q-zL EesS1BSp7Nw5qxGAoDBv9p6sCg51CmHpNJd9gj0Ty6GTbRe3ERXnL5CWwJLxyTInQ9xNJ6hROB WUY7iCWoGv11BLncBR8U 5VRQoVsWLWItbfmRzEV8bFyw4HnlqpZoCHwMjYhnljUhRijCOwyfYSoy vEzF s7Jvu8xnQyqTxoh4vNm53Fm1L37f8RchV5Ica1A8o=>]

Back to Index

~~~~~  
Florida Underwriter Magazine

Breaking Up Is Hard to Do

Florida's Largest Carrier Could Be Privatized

By Gary Fineout

August 2011

Citizens Property Insurance Corp., the state's largest property insurance carrier, keeps growing and growing. Despite being set up initially as a so-called "insurer of last resort," Citizens is adding an average of 4,200 policies a week. It now has nearly 1.4 million policyholders, and there is no sign that the number will be going down.

The growth is being blamed on a variety of reasons, many of them tied to the fragile nature of Florida's property insurance market and rising insurance rates charged by private companies. And that has people like Jim Malone plenty worried.

Malone, the chairman of the board of governors that oversees Citizens, is so frustrated that state lawmakers have been unwilling to make major changes to the state-created company that he wants legislators to consider privatizing part of the company.

His rationale is simple: Citizens is too large and has too much exposure if the state is suddenly hit by a major hurricane. A private company-with the ability to more easily raise rates-could bolster its finances faster than Citizens currently can.

Malone warned that there is a "train wreck" that could hit Citizens-and ultimately the state-if something is not done soon. Currently, Citizens can place an assessment on nearly every insurance premium, including auto insurance, if it does not have enough money to cover losses from a major hurricane.

"It's not a question of whether we are going to have a hurricane ... it's a question of when, where, and how bad," said the Naples businessman.

An Idea Born of Frustration

Malone threw out the idea of privatizing Citizens during a July meeting of the Citizens' board when he sharply criticized legislators for failing to pass a bill this year that would have allowed Citizens to raise its rates as high as 25



percent. That same legislation also would have made it more difficult for Floridians to obtain coverage through Citizens.

Citizens' rates are capped and cannot be raised more than 10 percent a year. These rate restrictions are in place even though Citizens insures many coastal homeowners and has a total exposure of roughly \$460 billion.

The legislation to raise Citizens' rates was sharply opposed by a coalition of both Republicans and Democrats from coastal areas. They argued that such a rate hike would hurt Florida at a time when its economy is slowly recovering from the recession.

Malone, clearly exasperated, told his fellow board members that if legislators couldn't pass a Citizens' bill this year he thinks it would be even harder for a similar bill to pass next year when all 160 legislators will be up for re-election because of redistricting.

He said he did not understand why legislators were willing to make it easier for private companies to raise rates by passing SB 408, but did not do the same for Citizens.

"Why in the world should it be complicated for the Legislature to let us charge what is necessary to be financially responsible," Malone asked. That's when he suggested that his only remaining idea was to ask legislators to spin off up to 800,000 policies into a new private company.

Scott Likes the Idea

While Malone's suggestion may have been a bit off-the-cuff, his idea quickly gained support from Gov. Rick Scott and Sen. Garrett Richter, R-Naples, the chairman of the Senate panel that oversees insurance.

Richter, who shares Malone's frustrations that a Citizens' bill went nowhere this past year, said he wants to have a "bona fide discussion" about the privatization concept. He called Citizens' current premiums "artificial" and not "actuarially sound."

"I would absolutely approach that discussion with an open mind," Richter said.

Scott, who has said he would like to eventually eliminate the ability of Citizens to charge assessments, said he would be willing to look at a privatization proposal if it would ultimately help reduce the cost of insurance in the state.

"The cost of property insurance is a significant problem for our families in the state right now," Scott said. "So if looking at things like privatizing Citizens is something that would help drive down the cost of insurance in our state, I'd want to look at it very closely."

Some lawmakers do not share that enthusiasm, however.

Sen. Mike Fasano, R-New Port Richey, said the reason so many people have enrolled with Citizens is because they cannot obtain coverage elsewhere. He pointed out that there is already a program in place that allows insurers to take out policies from Citizens, but right now there are not any carriers doing so.

He voiced concern that privatizing a chunk of Citizens would just harm consumers.

"It would only be worse if Citizens would be turned into a private entity," Fasano said.

He also pushed back at Malone's suggestion that lawmakers lacked the political will to deal with Citizens. "The political will that is needed in Tallahassee is to say no to the private insurance companies," said Fasano, who opposed SB 408.

#### Citizens' Finances Improve

It is not that Citizens lacks a large amount of resources to use if a storm hits the Sunshine State. Because Florida has had five hurricane-free years, the company has built up a decent-sized amount of surplus. The new numbers show that Citizens expects to have a total surplus of more than \$5.7 billion by the end of 2011.

The company also has \$2.9 billion worth of bond proceeds it can tap into, as well as \$575 million worth of private reinsurance coverage and another \$6.59 billion worth of reinsurance coverage from the state-created Florida Hurricane Catastrophe Fund.

In July, Citizens borrowed an additional \$900 million where for the first time the carrier pushed out the maturity of the bonds as far as nine years to take advantage of low interest rates. The bond issue included \$750 million of fixed-rate tax-exempt bonds and \$150 million of floating-rate tax-exempt bonds. Interest rates ranged from 0.65 percent for the one-year maturity to 4.75 percent on the nine-year maturity.

"This financing demonstrates Citizens' continuing commitment to our policyholders, but it does not represent a financial burden on other citizens of the state," Malone said. "The issuance of these bonds does not require an assessment of any type, since all debt service will be paid from internal resources of the company."

Even with all of its resources, Citizens would find itself in a precarious position if a large enough storm hit the state. An analysis conducted by Citizens shows that the carrier could easily withstand a 1-in-5 year storm similar to Hurricane Frances in 2004 or even a storm of a 1-in-25 year magnitude. That cushion, however, would be lost with a major storm.

A 1-in-50 year storm similar to 1992's Hurricane Andrew would occasion the need for nearly \$3 billion worth of surcharges and assessments on insurance bills in Florida. A 1-in-100 year storm would trigger nearly \$12 billion worth of additional charges.