**Florida Bolsters Hurricane Coffers**

**By** [**LESLIE SCISM**](http://online.wsj.com/search/term.html?KEYWORDS=LESLIE+SCISM&bylinesearch=true) **; July 22, 2011**

Just in time for the worst of hurricane season, Florida's state-run property insurer fattened its financial cushion with one of the nation's biggest municipal-bond offerings so far this year.

But despite its hefty size, the $900 million bond deal closed last week might not be enough if a series of monster storms strikes.

The worst-case scenario is a reminder of the vulnerability facing more than a dozen so-called last resort insurers in hurricane-prone states such as Florida, Louisiana and Mississippi.

The idea behind most state-run insurers is to offer policies to homeowners who can't get affordable coverage elsewhere. Most of the insurers have ballooned in size during the past decade as private-sector companies have fled, often after complaining that regulators and lawmakers wouldn't allow them to charge rates that reflect the risks of doing business in areas where hurricanes hit.



*Getty Images*

Volunteer Buddy Shipp in a destroyed Punta Gorda, Fla., church in 2004.

Citizens Property Insurance Corp. has been the biggest insurer of Florida homes since 2006, backing about 1.3 million residences and businesses, or 26% of the total. With $406 billion in total exposure, the state-run insurer's premium volume makes it one of the nation's 10 largest homeowners' insurers.

Florida hasn't been pummeled by a major hurricane since 2005. But researchers are predicting an unusually active storm season through the end of November. According to Colorado State University scientists, there is a 34% chance that Florida will be hit by a major hurricane in 2011, up from the historic average of 21%.

Major hurricanes are defined as having sustained winds of at least 111 miles an hour. The weakest hurricanes have a wind speed of 74 mph.

Last week's bond offering by Citizens, with annual interest rates of 0.65% to 4.75% depending on the maturity of the securities, increased to about $16 billion the amount readily accessible to pay claims, the company said.

The $16 billion pile would be enough to cover the state-run insurer's payouts on a storm as destructive as Hurricane Andrew in 1992. That Category 5 hurricane roared ashore south of Miami and caused $23.4 billion of insured damage in 2010 dollars.

But a direct strike on Miami by a Category 5 storm—the most ferocious category—or back-to-back hurricanes in other densely populated areas could completely drain Citizens and a separate state-run entity that sells reinsurance to Citizens and private-sector insurers. The reinsurance puts the Florida Hurricane Catastrophe Fund on the hook for some of those insurers' hurricane claims.

Under the worst-case scenario, policyholders of other insurers would inherit tens of billions of dollars in leftover damages. The reason: Citizens would pay claims and bondholders by imposing assessments on its own customers—and then on other insurers doing business in Florida. Private-sector carriers typically pass along the higher costs to their policyholders.

"We remain alarmed," says Dominic Calabro, president of Florida TaxWatch, a research group that complains that Florida regulators haven't increased insurance rates high enough to cover hurricane risks.



In a 2010 report, the group said Florida might be "one major hurricane hit away from" needing a U.S. bailout of Citizens.

Sharon Binnun, chief financial officer at Citizens, acknowledges that the state-run insurer's rates "are not yet adequate for the type of risk we are covering." Citizens is seeking regulatory approval for its third year in a row of increases, after legislation froze the insurer's rates for a couple years. Under a 2009 state law, increases are capped at 10% a year.

Last week's bond sale attracted $2.9 billion in orders, meaning many investors walked away empty-handed. Strong demand helped Citizens slightly reduce the interest rates promised on the bonds, Ms. Binnun says.

[Matt Fabian](http://topics.wsj.com/person/f/matt-fabian/417), managing director at Municipal Market Advisors, says the municipal-bond market "could certainly handle several more similar bond issues" from Citizens in the coming months, though borrowing costs are likely to rise.

In a research report, Moody's Investors Service wrote that a major Florida hurricane or series of storms "would test both the viability of the emergency assessment procedure during a period of great stress and the ability of the Florida economy to withstand such an event."

Citizens and the catastrophe fund could face challenges "as they seek to bring large amounts of debt to the market and impose overlapping" assessments "on a potentially depleted or ravaged assessment base," Moody's added. The firm rated the bonds A2, the sixth-highest possible rating.

[Robert Hartwig](http://topics.wsj.com/person/h/robert-p-hartwig/542), president of the Insurance Information Institute, an industry trade group, says selling the bonds during hurricane season underscores the problem of inadequate rates at Citizens. "In the worst-case scenario, Florida becomes Greece, with hurricanes exhausting its resources, forcing more and more borrowing on less and less attractive terms," he says.

Ms. Binnun responds that current assessment powers at Citizens make the insurer capable of paying claims for even something worse than a so-called 100-year hurricane—or one that, at least in theory, occurs once every 100 years. Citizens estimates it would face probable maximum losses of $24.52 billion in such a whopper storm.

"People aren't always happy to get assessments, but there is a framework established in Florida to pay hurricane damage" of enormous magnitude "without federal intervention," she says.

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