

Florida's Sinkhole Claims Crisis

Opportunism at its worst

PRIMARY GOALS

- Change the up to 10 year time to file sinkhole claims and eliminate the “tail” of retroactive claim filing
- Improve Florida homeowners insurance rates over time by eliminating an unintended and tremendous cost driver
- Reverse the potential for Floridians to receive Citizens assessments as a result of skyrocketing “sinkhole” claims that were never intended for coverage
- Ensure that homes with real sinkholes are repaired and therefore, protect neighborhoods and local community tax bases
- Restore stability to Florida's insurance market and attract new capital to the State by establishing a sinkhole repair program that eliminates opportunism
- Reduce Citizens' policy counts
- Reduce lawsuits and abuses

PRIMARY OBSTACLES

- Existing law allows for retroactive claims and policy shopping
- Existing law allows frivolous, unsupported claims initiated by public adjusters
- Nebulous statutory sinkhole definitions lead to litigation and claim disputes

The Current Crisis — Unintended Consequences

- Sinkhole claims up nearly 1200% since 1999, yet 1981 law requires companies to offer coverage.
- Geologists say “no geological reason” for explosion of sinkhole claims.
- Cost of sinkhole claims from 2006 through 2010 is expected to exceed \$2 billion
- Insurers are exiting Florida citing risk to solvency (ie, Mercury and Horace Mann Ins Cos - January 2011)
- Citizens receives 200+ sinkhole claims/mo (15% of monthly claim volume)
- Citizens pays 4 times more in sinkhole claims than it receives in premiums
- Citizens sinkhole litigation is 20.8% compared with 2% for all other perils combined.
- Sinkhole claims average \$130,000 each yet 99% of claims are for simple cracks
- Insurance companies have to pay...no choice because of legal glitches and nebulous sinkhole science
- Statistics show 79% of homeowners who receive sinkhole claims \$ pocket the money, then ask local officials to drop property taxes (Hernando County alone has lost \$173 million in tax value)
- Sinkhole solicitations blanket airwaves, billboards to entice people to file claims

Sinkhole Advertisement

Time is Running Out!

Sinkhole Activity

We have been successful in recovering large claim checks for several of your neighbors in Florida. Do you have cracking in your foundation, walls, floor, pavement, or pool deck? If so, you may be entitled to a large insurance settlement...

Uninsurable Risk

- The “date of loss” is not certain – consumers can “pick” a date they saw cracks which triggers a sinkhole claim
- “Dueling” engineers can’t agree if the claim is or isn’t a sinkhole leading to uncertain science
- “Tail” of coverage can be as long as 10 years leading to impossible premium and actuarial calculations.



No Question: Sinkhole Damage



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The Solution — Stabilize Florida’s Property Insurance Market

- Sinkhole repair program would fight abuses and reduce the cost to Florida related to sinkhole claims. Rather than inheriting the current crisis facing the insurance market, the repair program could immediately diminish it.
- Sinkhole repair program stops sinkhole insanity by isolating the issue into one entity that has the proper tools to end the sinkhole claims crisis by managing real sinkhole claims and eliminating frivolous ones
- Seven states use a state-run repair program to manage claims dealing with settlement and cracking of the ground due to coal mining and earthquake activity with no taxpayer burden
- Florida’s 1969 sinkhole reinsurance facility successfully “worked itself out of a job”
- Sinkhole repair program can offer sinkhole coverage and claims handling or temporarily handle claims until law changes take effect
- Sinkhole repair program must be immune from bad faith allegations and require repairs vs consumers pocketing claim cash
- Frivolous claims will be eliminated
- Legitimate claims will be paid
- Floridians will be spared the pain of funding sinkhole abuses for the next 5+ years
- Houses will be fixed
- Neighborhoods and the tax base will be preserved
- Lawsuits will be reduced
- Citizens’ policy numbers will decline