

Fla Citizens' Business Travel Saves Florida Money

By [Christian Cámara](#) August 8, 2014

A recent [article](#) by the *Palm Beach Post* blasting Citizens Property Insurance Corp. executives for traveling overseas casts a negative image onto the state-owned and operated insurer. However, what the article fails to establish is that such travels are a necessary function of any insurance company similar in size and scope to Citizens.

As a condition to sell an insurance product, insurance companies are required to prove that they have secured enough surplus (cash in the bank) and risk transfer (reinsurance) to be able to pay their claims. Otherwise, an insurer selling coverage that it can't realistically make good on would be engaging in criminal fraud, from which the government rightfully should protect its residents.

Reinsurance is one of the ways insurers pay their claims. It is essentially insurance for insurance companies. If a tornado damages or destroys a handful of homes, those claims are usually paid for by insurance companies directly; if a hurricane causes billions of dollars of damage to an entire region, reinsurance kicks in. As such, insurers are required to carry reinsurance in order to sell the coverage they offer consumers, especially in risky places like Florida.

Despite the potential of billions of dollars in claims, reinsurance companies make their money by spreading risk around the globe, which is something a typical primary insurance company simply cannot do on its own. So while they may be paying out money for claims stemming from a hurricane in Florida, they are also collecting premiums for separate, unrelated risks elsewhere, such as earthquakes in New Zealand.

But reinsurance is a complex and expensive product that is not easy to price or negotiate. Several factors are taken into account, including an insurer's finances, exposure (how at risk the properties they cover are), claims-paying patterns, litigation history and so forth. Investors backing up the reinsurance transactions usually ask questions of the insurance executives. As such, these negotiations, even in today's digital world, are done mostly in person wherever the reinsurer is based, which is usually places like London, Zurich and Bermuda. This is how virtually every insurer around the world has to do it, and Citizens is no different.

It must be noted that Citizens is not legally required to carry reinsurance, because it has the unilateral authority to levy assessments (read: hurricane taxes) on virtually every policy issued in the state (property, auto, renters, commercial, boaters, etc.) if it ever encounters a deficit in its surplus due to a sufficiently bad hurricane season. However, Citizens made the responsible decision a few years ago to begin purchasing reinsurance coverage to reduce the likelihood or severity of post-hurricane assessments, which could increase the overall cost of insurance on Floridians by up to 40 percent for multiple years in a worst-case scenario—during which time another hurricane could strike and compound the situation.

So this year, Citizens negotiated with reinsurance companies to provide the same kind of coverage every other private insurer must buy as a matter of law. Thanks to the deals reached by Citizens executives during the business trips that the *Post* and others have demonized, Citizens was able to [purchase](#) \$3.1 billion in reinsurance coverage for \$300 million. This is nearly twice as much coverage as it purchased last year for almost the same price. This reduces the assessment risk on Floridians from \$11.6 billion to \$2.3 billion. The state's other government-run insurance entity, the Florida Hurricane Catastrophe Fund, might well want to consider purchasing its own reinsurance coverage to further protect Florida taxpayers.

Nevertheless, the *Post* unfairly attempts to link consumer horror stories of denied coverage and unpaid claims to "lavish" travels by some employees, as if Citizens made a practice of denying claims to use that money to pay for expensive junkets. Never mind that these are totally unrelated to one another, that they are paid for by different pots of money or that these trips were necessary to seal multi-million dollar deals that may potentially save Floridians billions of dollars. It is the kind of comparison a slick politician would use to demagogue an adversary.

Citizens is Florida's largest property insurer, due in part to government policies supported by many politicians who today attack Citizens. If they find it unacceptable for Citizens to operate like a regular company and make decisions that rely less on a taxpayer bailout, they should join those of us who support actions to reduce its size and restore it to its original role as an insurer of last resort.