

The Florida Property Insurance Debate: Governor Rick Scott and Charlie Crist Campaign Review

KEY PLAYERS



Jeb Bush
Florida Governor
1999-2006



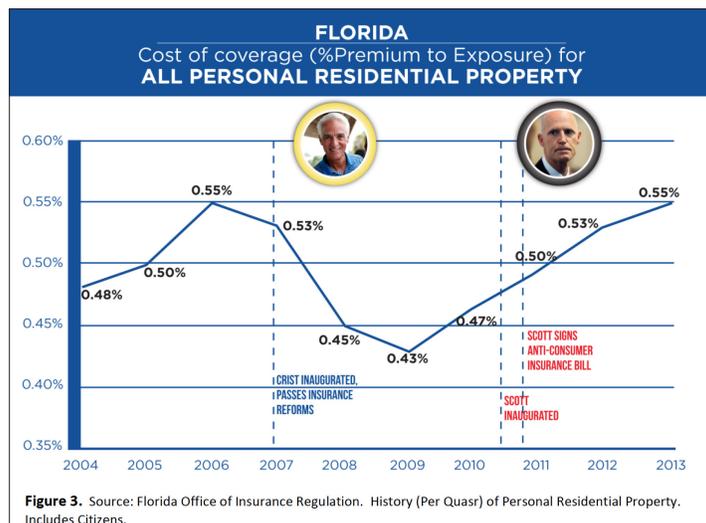
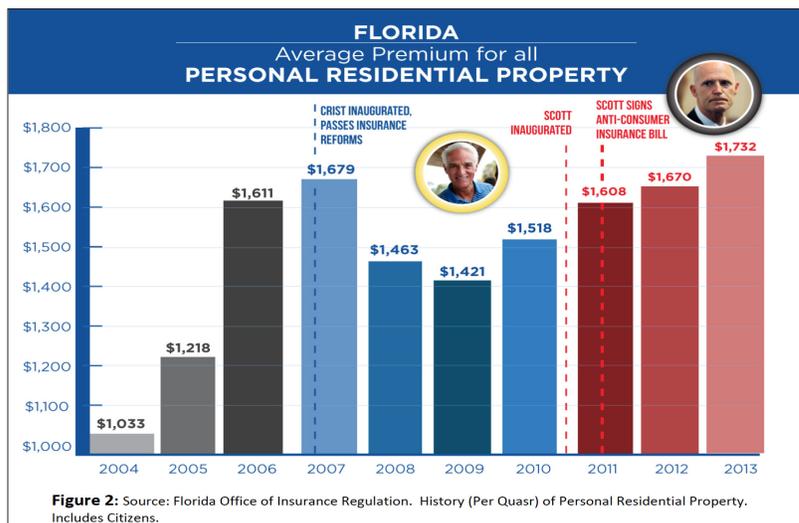
Charlie Crist
Florida Governor
2007-2010



Rick Scott
Florida Governor
2011-Current

Crist Campaign Myth: Homeowners insurance premium in Florida declined as a result of changes made by Crist during his administration from 2007-2010, specifically the passage of House Bill 1A (HB1A)

The "Protecting Your Paycheck" brochure published by Charlie Crist's campaign attributes the decline in premium to Crist putting consumers ahead of insurance companies. The campaign also indicates that homeowners insurance premiums have increased under Governor Rick Scott's administration because Governor Scott puts insurance companies ahead of consumers. To reinforce and clearly present this argument, the Crist campaign produced the following two charts that were based on data compiled by the OIR:



Fact: Homeowners insurance premiums declined during Crist's administration as a result of changes that were made prior to his election as Florida's Governor.

There is an 18- to 24-month time lag from the time insurance law changes are made to when premium changes are reflected in the market and noticed by policyholders. The lag occurs because insurance companies are required by law to complete the following:

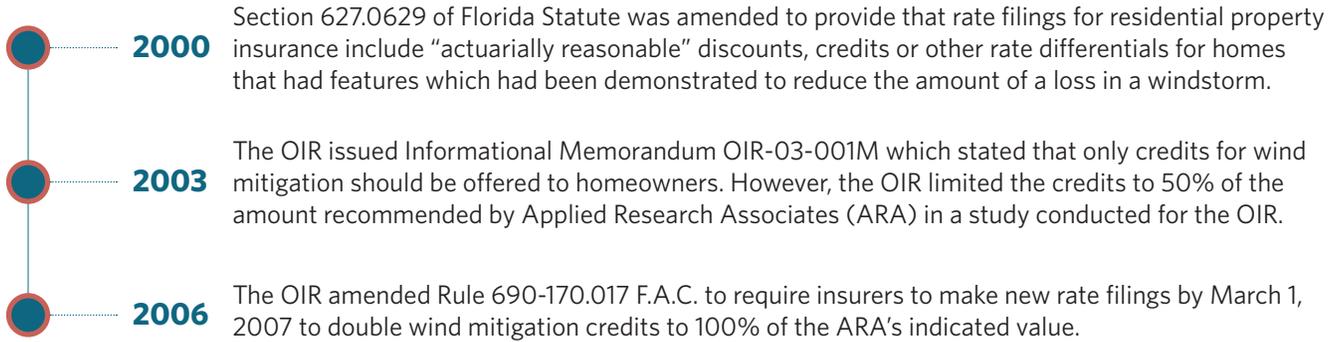
1. Design policy forms to reflect law changes
2. Submit new forms in a filing for approval by the Office of Insurance Regulation (OIR)
3. Once approved by the OIR, insurance companies must then program changes into their systems
4. Changes are implemented over the 12-month renewal cycle (policy term), and are not provided to policyholders at once

This makes it impossible for law changes to have an immediate impact on the market. Therefore the decrease in homeowners insurance premium from 2007 to 2009 was primarily the result of changes to law that were made prior to the start of Crist's term as Florida Governor. Additionally, the increase in homeowners insurance premiums from 2011 to 2013 was the result of changes to law that were made when Charlie Crist was serving as Florida's Governor.

The role of windstorm mitigation credits

Jeb Bush served as Florida's Governor from January 1999 to January 2006. During his administration, he approved changes to insurance law that required insurance companies to offer discounts to homeowners in Florida who had homes with features, such as shutters, to better withstand windstorm damage. These discounts are known as windstorm mitigation credits (WMC).

History of windstorm mitigation credits:



The doubling of wind mitigation credits in December 2006 without a change in base rates significantly reduced the homeowners insurance premium paid by millions of Floridians. A report on wind mitigation credits, which was prepared in March 2010 by Risk Management Solutions, Inc. (RMS) for the Florida legislature under contract to the Florida Department of Financial Services, reached the following conclusion:

"In its current implementation (i.e. normalized to the weakest building), the WMC table allows 99% of the homes in the state to qualify for some level of credit. At present, RMS estimates that, with 20% of the population inspected, average statewide premiums have reduced by 20%. If the WMC system continues in the absence of a base rate offset, the average premium reductions could ultimately reach 35%."

That same year, studies of WMC prepared by Florida State University and the Florida Commission on Hurricane Loss Projection Methodology reached similar conclusions.

The role of the Office of Insurance Regulation

While serving as Florida's Governor, Jeb Bush and Cabinet appointed Kevin McCarty as Florida's first appointed Insurance Commissioner. The appointed insurance commissioner, staff of the Office of Insurance Regulation (OIR), and the rating law that determines how insurance companies file their annual rate requests and how those rate requests are reviewed and approved by the regulators, have remained unchanged for three administrations (Bush, Crist, Scott). This makes it disingenuous for Charlie Crist to state that he moved "aggressively" to change the way property insurance policies are priced and regulated.

The mistake of HB1A and the real impact on Floridians

There are four principal cost drivers of homeowners insurance:

1. Florida is subject to more natural hazards (hurricanes, storm surge, floods, and wildfires) than any other state in the US.
2. Florida property owners, on average, purchase more homeowners insurance coverage than property owners in other states.
3. The cost of reinsurance, which is coverage homeowners insurance companies purchase to protect themselves from hurricane losses, typically represents at least 35% of the total premium paid for a homeowner's insurance policy.
4. The cost of non-hurricane claims, typically represents 25% to 35% of the cost of a homeowner's insurance policy.

The last two items can be controlled by changes made to Florida's insurance law. The passage of HB1A was an attempt by Crist while serving as Florida Governor to reduce the cost of reinsurance. HB1A increased the amount of reinsurance coverage provided by the State of Florida through the Florida Hurricane Catastrophe Fund (FHCF). The bill increased the amount of reinsurance coverage available to Florida homeowners insurance companies from \$16 billion to \$28 billion. HB1A also gave the Governor and Cabinet, acting as the State Board of Administration (SBA), the authority to increase coverage even further by an additional \$4 billion, if circumstances warranted.

This was a major cost-savings for homeowners insurance companies doing business in Florida because at the time, the cost of the reinsurance provided by the FHCF was more than 50% less than the cost of similar reinsurance provided by private reinsurance companies in London and Bermuda. Insurance companies did not object to these lower costs.

Sounds good, right? The problem with HB1A was that it was a short-term fix that created a new problem in the form of significantly increased exposure to a financial crisis for the entire state of Florida and everyone who lives here.

There were three potential problems created by the passage of HB1A:

1. In the event of a storm, every Floridian would be obligated to repay the hurricane loss with interest. This happened after the Hurricanes of 2004 and 2005. In the short term, the Florida Hurricane Catastrophe Fund had to issue bonds to raise cash to pay claims. Those bonds were paid off by taxing every auto and homeowners insurance policy with a surcharge of 1.3% of the premium. The total "hurricane tax" on Floridians was nearly \$3 billion for the FHCF. Floridians paid an additional \$1.7 billion to Citizens Property Insurance Corporation to pay for claims from Hurricane Wilma.

This system of post-loss assessments is unfair because, in effect, you end up subsidizing wealthy people or non-residents (seasonal homeowners) who live on the coast or in the most hurricane-prone areas of the state by taxing the auto and homeowners insurance policies of every Floridian.

2. The second problem with expanding the amount of reinsurance sold by the FHCF is that it could make it more unlikely for the FHCF to be able to pay its claims in full and in a timely manner. Essentially, HB1A created short-term relief in hopes that there wouldn't be any financial crisis during post-disaster recovery.

Charlie Crist assumed that the FHCF (or the state of Florida) would have the ability to raise a significant amount of cash by selling bonds after an event. That is not a sure-bet. It might not always be possible to sell the huge amount of bonds necessary to pay claims. In the summer of 2008, the FHCF faced potential liabilities of \$28 billion. At the time, the FHCF only had \$3 billion in cash on hand. That was supplemented by \$3 billion of pre-event bonds and a \$4.5 billion option from Berkshire Hathaway. Experts at the time estimated that the FHCF could issue an additional \$3 billion in bonds if required to pay claims. That left a shortfall of \$14.5 billion. That meant that the FHCF could only pay 50% of its obligations in the event of a major storm in 2008. The remaining 50% would result in thousands of Floridians with unpaid claims and no place to live. Fortunately, the state did not experience a hurricane in 2008. The shortfall in the bonding capacity of the FHCF continued the entire time Crist served as Governor.

"We would like to be able to say to the legislature that we can pay 100% of our losses, regardless of what happens. Right now, we can't honestly say that we can," ~Jack Nicholson, COO of FHCF

Source: A.M. Best Company, Inc. , August 2011

3. The third problem with the FHCF providing a significant amount of reinsurance in one year is that the FHCF might not be able to provide any meaningful reinsurance capacity for the year following a major hurricane. That would cause a significant increase in homeowner's premium as insurance companies scramble to replace FHCF capacity with private reinsurance capacity in the year following a major storm.

Crist Reverses Course to Correct Issues Resulting From HB1A, Leaving a Trail of Increased Costs in Homeowners Insurance for Years to Come

To correct this mistake, the legislature passed and Crist signed HB 1495 in 2009. That bill resulted in the following:

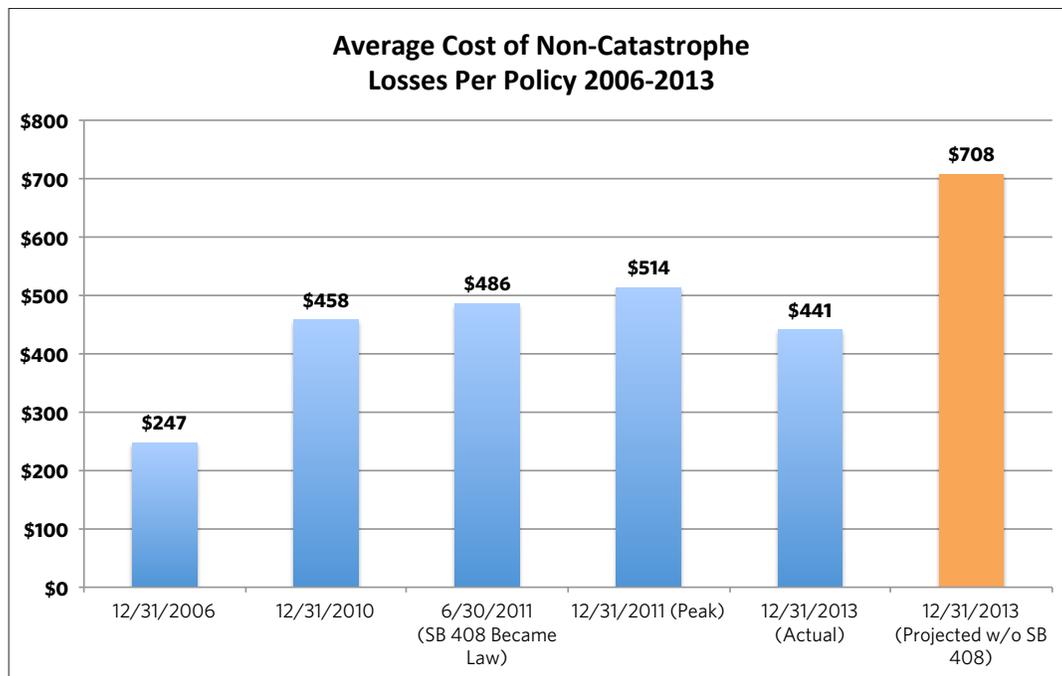
- Increased the cost of reinsurance provided by the FHCF
- Eliminated the authority of the Governor and the Cabinet to increase the amount of coverage provided by the FHCF by \$4 billion
- Reduced the amount of coverage provided by the FHCF by \$12 billion over a period of 4 years

The premium increases caused by those increased costs would be felt by Floridians insured by insurance companies other than Citizens after Charlie Crist left office in January 2011. HB 1495 also permitted Citizens to increase rates by 10% per year. Those rate increases would be felt by Citizens customers beginning in 2010 when Crist was running for U.S. Senate.

During the time that Charlie Crist was Governor, the cost of non-hurricane claims rose dramatically. Between December 31, 2006 and December 31, 2010, costs increased 85.4% from \$247 to \$458 per policy. If this trend continued, it was estimated that the cost per policy would reach \$708 by December 31, 2013. After grossing up the projected loss cost increases by 20% to cover the increased company expense and premium tax owed on the increased premium, the price of homeowners insurance for the average Florida homeowner would increase by \$300 unless the law was changed.

During Charlie Crist's administration and while running for U.S. Senate, he had a chance to stop rising claims costs. He chose not to by vetoing SB 2044 in 2010. This bill, if passed into law, would have reduced claim costs by eliminating the fraud that was occurring with sinkhole and water damage claims. Therefore, the veto of SB 2044 prevented Florida policyholders from obtaining a premium decrease on their homeowners insurance and could be viewed as anti-consumer.

By signing SB 408 in 2011, Governor Scott put a stop to rising costs. In fact, the cost of non-catastrophe claims per policy are 3.7% less today than they were when he first took office.



The announced reason for the veto was the inclusion of a provision in the bill that allowed insurance companies to make an expedited rate filing for changes in reinsurance costs. Ironically, that same provision (passed when SB 408 was signed into law by Governor Rick Scott in 2013) is what made it possible for insurance companies to quickly pass along premium decreases to Florida policyholders due to a decline in reinsurance costs.

Governor Rick Scott is hired to clean up the mess left behind by Charlie Crist

In contrast to Charlie Crist's risky approach of increasing the amount of reinsurance sold by the FHCF, Governor Scott has concentrated on reducing premiums by attacking the other "cost drivers" which increase premiums. The most important change was allowing insurance companies to pay the actual cash value of a loss upfront and simply requiring people to repair the damage to their homes prior to receiving the balance of their replacement cost coverage. This reduced insurance claim costs, and by requiring repairs, improved neighborhoods after homes were damaged.

Charlie Crist's campaign brochure has labeled this change (passed in 2011 as part of SB 408) as "anti-consumer." In fact, this change simply returns Florida law to where it was prior to 2006. And, it is the law in 49 other states. This provision was part of SB 2044 which Charlie vetoed in 2010 when he was running for US Senate. He didn't mention this provision in his veto message, and it could easily be argued that the veto delayed the premium reductions that consumers are now seeing by 12 months.

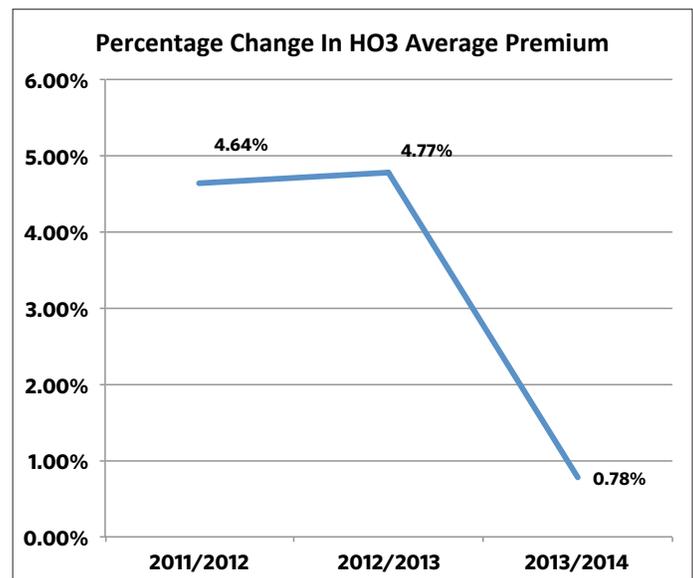
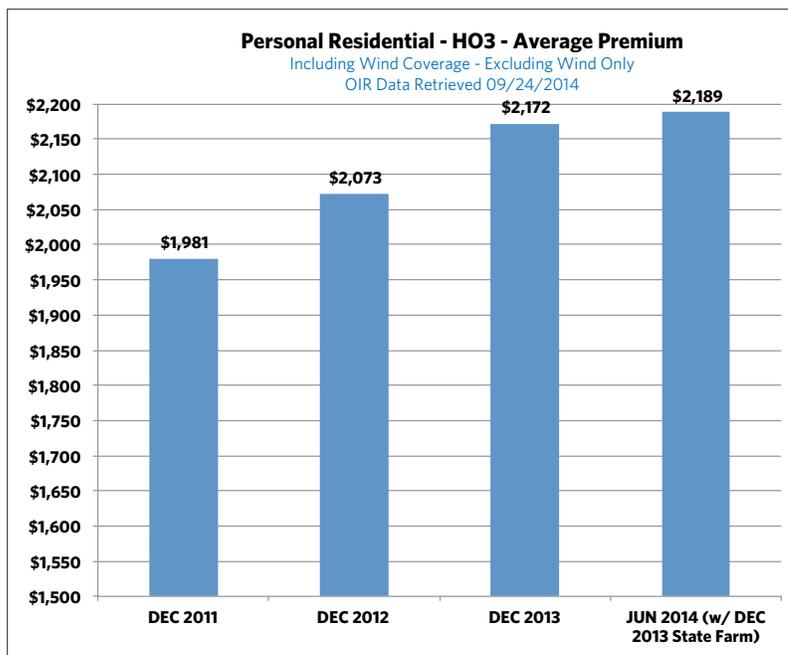
Crist's campaign brochure also did not mention the fact that SB 408 tripled the amount of money required to start a new homeowner's insurance company from \$5 million to \$15 million, strengthening Florida's private homeowners insurance market and increasing financial requirements of insurance companies. It would be hard to characterize this provision as "anti-consumer" and "pro-insurance company."

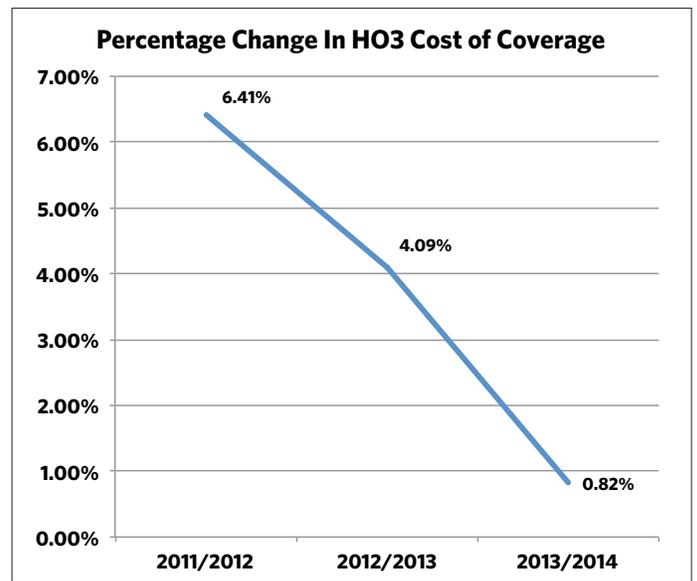
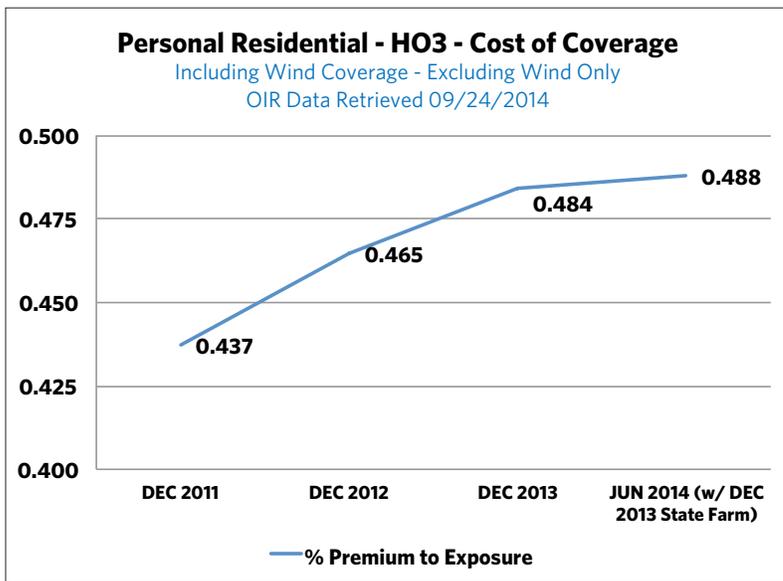
What about the numbers presented in Crist's campaign brochure?

The two charts in Crist's campaign brochure show the average premium and the average rate for all personal residential policies sold in the state of Florida from 2004 to 2013. There are several problems with this approach:

1. "Personal Residential Policies" includes homeowners policies, condominium unit owners policies, mobile home policies, renters policies, wind-only policies, and policies that exclude wind coverage. The number of these policies can vary significantly over time and make the "average" meaningless.
2. The policies are being sold by the private market and by Citizens. Citizens' rates are set by the legislature and Citizens' market share has varied significantly over the 10 year period. This makes the "average" price meaningless.
3. 2014 data is omitted. This is not an accident. Prices charged by many companies are going down. Average premium and the average cost of coverage have remained steady. Including data from 2014 would spoil the narrative of constantly increasing costs for Floridians.

When most people hear the term "homeowners insurance" they imagine a policy of insurance that covers both wind and non-wind losses on a single owner-occupied residence. There are over 3,000,000 of those policies sold in Florida by insurance companies other than Citizens. Here are the results when you look at those policies:





From these charts, it's clear that the price of homeowners insurance has stopped increasing. In the last 18 months, 24 insurance companies that provide coverage to more than 50% of the homes in Florida have requested rate decreases. Those rate decreases, which average -5.9%, have been as high as -17%. These decreases will ultimately be reflected in the Quarterly Supplemental Report (QUASR) provided by the OIR. There will be additional rate decreases in 2015 because of the elimination of the 1.3% hurricane tax imposed by the FHCF and the 1.0% hurricane tax imposed by Citizens to pay for claims in 2005.

During Crist's administration, after the initial round of decreases in 2007 caused by the doubling of the wind mitigation credits and the reduction in reinsurance costs, homeowners insurance rates only went up.

Charlie Crist's Promises This Year

Let's look at Charlie's campaign promises that are outlined in "Protecting Your Paycheck":

- Work to lower insurance premiums by doing things like requiring insurance companies pass reinsurance savings on to consumers. This is already the law in Florida. Insurance companies are required to make an annual rate filing that reflects their true costs of doing business. That filing must be signed by officers of the company under oath. That makes it a crime to submit false information. It will be clear if there are any changes in the costs of doing business in Florida, which is evident in the number of rate filings for rate decreases that have occurred over the last 18 months.
- Work with the legislature to repeal anti-consumer insurance laws passed by Rick Scott. The Crist campaign brochure only mentions SB 408 passed in 2011 as anti-consumer. According to the Crist campaign the following provisions of SB 408 are objectionable:
 - Reducing the time limit on filing a claim for hurricane damage from five years to three years. Response: The homeowners insurance policy requires prompt notice of any claim. Do you really need more than three years to figure out that your home has been damaged by a hurricane?
 - Allowing companies to increase the deductibles on sinkhole activity coverage to as much as 10%. Response: HB1A which Charlie championed in 2007 removed sinkhole activity coverage from the base homeowners insurance policy and made it an optional endorsement. HB1A also allowed consumers to choose deductibles greater than 10% on their homeowners policy.
 - Requiring the payment of actual cash value (ACV) up front for losses to a structure and making the payment of the full replacement cost subject to completing repairs. According to the Crist campaign brochure "the new law made it harder for residential and commercial property owners to recover losses" and "it limited the amounts of recovery in some circumstances to actual cash value (the value of the property minus depreciation) instead of the replacement

costs.” Response: SB 408 simply returned Florida law to where it was prior to 2006. The provision in SB 408 is the same as the law in every other state in the United States. Requiring a damaged home to be repaired after a loss is simply good public policy. There is no evidence that this method of loss payment makes it harder for consumers to get paid or limits the amount of their recovery as claimed by the Crist campaign.

3. Require transparency for all insurers. In response to the Pulitzer Prize winning series by Paige St. John in 2010, the legislature in SB 2044 gave the OIR expanded authority to examine MGAs and required the extensive reporting of intercompany transactions and the financial results of affiliated companies. Charlie vetoed that bill.
4. Increase the coverage of the FHCF. That’s a bad idea for Floridians. It was tried in HB1A in 2007 and abandoned in HB 1495 in 2009. The cost of reinsurance being provided by the FHCF could be reduced by eliminating the rapid cash build-up factor (currently 25% of premium) and lowering the retention of the FHCF.
5. Advocate for a national catastrophe fund. That’s an appropriate position for a candidate running for the US Senate.

Conclusion

In 2013, in a report to the Florida Legislature entitled The State of Florida’s Property Insurance Market, researchers at Florida State University concluded:

“There are three main benefits to having the private market: accurate pricing of risk, incentives to mitigate, and diversification of risk beyond Florida”

Governor Scott’s first term has been marked by efforts to reduce the role of the state government in providing homeowners insurance and reinsurance to Floridians, decreasing premiums by attacking the “cost drivers” of premium increases, and by encouraging increased competition among the private companies writing homeowners insurance in Florida. The results have been impressive:

- Homeowners premiums began to decrease in 2013
- The Florida Hurricane Catastrophe Fund has reduced its exposure from \$28 billion to \$14 billion, decreasing the chances of an assessment for future hurricane losses
- The number of policies in Citizens Property Insurance Corporation has been significantly reduced from 1.3 million policies when Governor Scott took office to 900,000 policies today. This reduces the chance of an assessment on non-Citizens customers. These assessments would be similar to the assessments that occurred and were charged to Florida policyholders after Hurricane Wilma.
- Non-catastrophe claims have been reduced by attacking fraud and abuse in the claims process
- New companies have been started. This increases competition – reducing prices and expanding the number of consumer choices for insurance coverage

Charlie Crist wants to reverse these positive trends by duplicating the failed policies that he advocated in 2007 – a bigger role for state government and more state regulation. That didn’t work for Florida in 2007 and it won’t work for Florida in 2015.

There is more work to do to improve the homeowners insurance market in Florida and make insurance rates as low as possible. The FHCF can and should be reduced further. Citizens can and should be reduced further. Abuses that are occurring daily with the assignment of benefits in water claims can be eliminated.

Let’s keep working.