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Protecting Your Pocket Blog

Make sure Citizens is not overcharging in rate hike, advocate urges

By Charles Elmore

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It's an age-old thing: Advertisements tell us we're "saving" if we buy now. But it all depends on whether we really need or want the product. Otherwise, it's not saving. It's just spending.

Now turn to property insurance. Take a careful look at the 3.2 percent rate hike requested for 2016 by state-run Citizens Property Insurance Corp., Florida's new insurance consumer advocate is asking its top regulator in a letter.

"I urge the Office of Insurance Regulation to strongly consider the impact of Citizen's reinsurance program" as well as debt-financing and water-loss claims affecting rates, Sha'Ron James wrote to insurance commissioner Kevin McCarty Monday.

Here's what is at issue: Citizens says it is spending hundreds of millions of dollars a year on back-up insurance from private offshore companies to save customers from having to pay any assessments after a storm — even a 1-in-100-year storm. This reinsurance costs about 10 percent of each premium dollar, a company spokesman noted. Citizens spent nothing on private reinsurance five years ago.

Citizens officials have trumpeted this as a landmark achievement, representing a potential savings not only to its nearly 600,000 customers, but also customers of other insurers who could be assessed to bail out the state-run company. Private insurers routinely buy reinsurance to this level and beyond, they note.

But from the consumer's viewpoint, the "savings" only kick in if the reinsurance saves customers from storm taxes after, say, a once-a-century storm — which has a 1 percent of chance of happening in any given year. Otherwise, it's just spending that goes into the pockets of private reinsurers in Bermuda or Europe, not into the Citizens surplus of more than \$7 billion. Money in the surplus can grow in storm-free years and remain available in Florida to pay claims.

Meanwhile, the reinsurance costs are one reason why Citizens says it needs to raise rates an average of 3.2 percent — and 4.6 percent in Palm Beach County — in 2016, though no hurricane has hit in a decade. Citizens reduced overall rates slightly last year, but officials now say reinsurance costs must be spread across a shrinking customer base. They argue other factors such as water-damage claims in South Florida play a much more significant role in rates.

James, the state-paid consumer advocate, agrees getting water claims under control is important, but asks McCarty's office to take a hard look at whether the Citizens reinsurance program "exceeds the level of adequacy needed to fulfill its obligations."

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