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Florida Citizens Interim President: We Will Not Budget for Growth

By Michael Buck

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JACKSONVILLE, Fla. - The new interim president of Florida's Citizens Property Insurance Corp. has a single overall objective-shrink the company.

In this third week on the job, Tom Grady said he wants to make a renewed effort into shedding some of Citizens' risk and reduce the company to the state's intended status of insurer of last resort.

"There are many ways to do that, but it involves the private sector," Grady told Best's News Service. "We've got to provide consumers in Florida with greater choice. We can't do it at Citizens, we have to do it by doing everything we can at Citizens to accommodate private sector participation."

Grady comes to the insurer from Florida's Office of Financial Regulation, where he served as commissioner. He was tapped for the position as the former president, Scott Wallace, exited following an announcement in January (Best's News Service, March 7, 2012). Grady's tenure is currently limited to an interim basis while the Citizens board of directors conducts a national search for a permanent replacement.

Citizens has about 1.5 million policies in force and is budgeted to end the year with 1.65 million policies, Grady said. But, he wants that changed.

"I have asked all my division directors to regroup and make some different assumptions so that we do not plan for growth," he said. "We will be planning ... to shrink. We will not budget for growth."

One way the company will jettison policies is by working with private market insurers to take them out. Grady said this year is promising to produce strong take-out numbers. In the first quarter, three companies have taken nearly 58,000 policies out of Citizens, according to company data.

Insurance executives in Florida have told Best's News Service that taking policies out of Citizens can be a great way to jump start a business. Those same executives, however, warned the process is time consuming (Best's News Service, March 19, 2012).

The number of policies companies have been taking out has fallen off in recent years.

From 2007 to 2009, the number of policies removed by take-out companies was more than 149,000 a year, reaching as high as 385,000 in 2008. However in 2010 and 2011, policies removed numbered fewer than 60,000.

Grady said insurance companies have been struggling, along with other financial sectors, in the past few years with the economic downturn. He said growth in the insurance industry is done today through acquisition, and he thinks the financial backdrop is increasingly favorable for companies to do just that.

"People pay for that; companies pay in order to acquire books of business from other companies," Grady said. "We're here giving it away. You can say 'all right, well nobody wants it because maybe the rate is deemed inadequate or maybe they don't want the Florida risk ... but Florida risk does have a market.'"

Grady said Citizens' rates are not actuarially sound across the board. He said in some products and in some regions they are currently market price, but in others they will need years to get to where they need to be, with the farthest out being the southeast coast and the state's wind pool.

Citizens is currently on a "glide path" to get their rates actuarially sound, said Lynne McChristian, the Florida representative for the Insurance Information Institute. She said private insurers will say they cannot compete with Citizens because their rates are too low. Private insurers have also said they're frustrated with the consumer opt out stipulations and a large chunk want to stay with Citizens, even if their policy is selected to be assumed.

"With existing law and regulation, I think there is a lot we can do to encourage people to not do that," Grady said. "A knee jerk reaction is 'why change?' People don't automatically see the benefit."

Those benefits include better rates, better levels of service and being subject to fewer assessments that Citizens sometimes levies on its policyholders.

The bottom line for Grady is that Citizens "crowds the private sector health."

"We are eager to meet with anyone who has ideas on how to better manage our book of business and to help support a vibrant, healthy, successful private market in Florida," Grady said. "It's been a challenge for a very long time in this state."

The top five writers of homeowners insurance in 2010 in Florida, according to BestLink, were: Citizens, with market share of 15.3%; State Farm Group, with 12.9%; Universal Insurance Holdings Group, with 7.9%; Tower Hill Group, with 4.7%; and USAA Group, with 4.6%.

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