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The only windstorm insurer possible - State government controlled

By John Reiniers

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This writer has beaten the subject of windstorm insurance to death. Hernando Today has published columns I had written in 2006, 2007, 2008 and 2009 discussing the recommendations of experts. The last expert I talked to was Bruce Douglas, the then Chairman of Citizens Property Insurance (unpaid) in 2006 - a weary man, having gone through about eight storms during his tenure.

Windstorm insurance generally, and Citizens Property Insurance specifically, are urgent subjects for Floridians. Just like Obamacare on a national level, the average person can't understand or afford either.

One wonders if it is technically doable to simulcast legislative committee hearings and/or workshops to county broadcast channels, as is done locally for county commission and city council meetings. Televising hearings would at least give interested and knowledgeable persons throughout the state the opportunity to participate.

The private windstorm insurance market remains in a state of collapse and I have argued that neither Citizens nor private sector insurers are the answer.

Sen. Mike Fasano has been a champion of many important causes, not the least of which has been the intractable issue of Citizens Insurance. He is not getting enough media attention explaining his views.

Many observers have argued for years that premiums were not actuarially sound, and even if they were, they would be unaffordable. And at the same time insurers are not gamblers and do not want to take on a peril that is beyond their ability to underwrite. (The claim costs of Hurricane Andrew underscored that on both counts.) It seems that Fasano too believes that homeowners insurers, not Citizens, should be left to do what they do best - underwrite mundane non-catastrophic risks, such as fire, theft, comprehensive liability (CPL) etc. and forget about depopulating Citizens to sub-standard insurers. There is nowhere for the homeowner to go. Something different is needed.

We brought this on ourselves. Seventy-five percent of our population lives in 35 coastal counties in all the wrong places. From the insurance industry's viewpoint this change is a modern phenomenon. I experienced the deadly 1938 "Long Island Express" hurricane as a kid in New Jersey at a time when the entire southeastern coastline was mostly pristine beach, so it couldn't even suffer catastrophic damage. I went through Hurricane King in

Miami in 1950 - the year the homeowners policy was introduced in the United States. Both of these areas are ripe for another catastrophe. In fact many experts believe the entire southeast coastline is long overdue, as well as New Jersey and Long Island. The claims potential is enormous. Insurers have non-renewed policies in these places to reduce their exposure to catastrophic losses.

One useful idea advanced in recent years has been The Florida Mutual Hurricane Fund. (This seems to be a concept similar to Fasano's.) It would be the exclusive windstorm insurer - in effect a single peril state-owned "insurer," with no sales force, no federal taxes, and no investor returns. It would work something like the federal flood insurance program.

Premiums would be deposited by the Fund which I believe Fasano refers to as a "pool" of money to be managed by a restructured "Citizens." All private insurers and Citizens would cede their windstorm risk to this new entity. This idea was originally known as The Florida Reinsurance Fund and promoted by Don Crane, Bill Ballard and Dan Montgomery. As a conservative, I am not a fan of Government Sponsored Enterprises, (GSEs) but we've made so many mistakes developing our coastline, there is no turning back, and no alternative. Government "takeovers" have their place in capitalist countries when the preservation of property is at stake.

Consider the Netherlands. Damage from floods is not an insurable risk. Payment of damages is the responsibility of government. (Obviously, that means the taxpayer.) Claims are adjusted by the government under The Calamities Compensation Act. It makes sense. The Dutch earn 70 percent of their GNP below sea level. (They started building dikes and canals in the 11th century, so they have the experience.) One could argue that 100 percent of Florida's GNP is earned in Hurricane prone areas, and 90 percent of us live within 10 miles of water.

It would appear that the Florida Hurricane Catastrophe Fund would be subsumed by Fasano's new entity which would still face the need for transferring risk to either reinsurers or investors, even if it were self-funding. The cat bond market seems very attractive to investors these days. The Wall Street Journal wrote on June 7th, that investors are clamoring for cat bonds "because of their solid returns...and reliability compared with recent swings in the equity, junk bond and commodity prices."

It was reported that Citizens plans to bring \$1.25 billion in bonds to market the week of June 11th. In 2007, I had written about Warren Buffet, (whose hedge fund is into cat bonds) who said, "We are willing to do more than anybody else if the price is right. We are certainly willing to lose \$6 billion on a single event. I hope we don't."

The U.S. has a wider variety of natural disasters than anywhere on the planet, and they have more than doubled since 1980. Some are so devastating they require the intervention of, and disaster relief by the National Guard.

This clearly suggests there is a role for government. To that end The National Association of Insurance Commissioners (NAIC) has proposed creating a national catastrophic fund at the federal level directed by a national commission. The idea of a comprehensive disaster insurance

program with one policy covering all disasters exists in France and Spain. In Japan catastrophic earthquake losses are shared among all private insurers and the government through reinsurance.

Sen. Fasano's proposal is more modest and a step in the right direction. It seems to be at odds with the governor and the establishment, who are seeking to rebuild the moribund private windstorm insurance market. A new CEO of Citizens was just appointed on Wednesday, who - and this is a first - has decades of insurance experience. He should certainly understand Fasano's concept and its technical challenges. The senator, on the other hand, understands the practical political obstacles.

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