

ENSURED FRUSTRATION

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Tallahassee's first attempt at legislating property insurance rates failed. Get ready for the sequel.

Florida insurance industry executives, tired of playing the piñata to Gov. Charlie Crist's populist stick in the ongoing statewide property insurance fight, are starting to fight back. And for some companies, sheer survival is at stake. Take Allstate Floridian, one of the top three companies in the state in terms of total homeowners policies: In a move publicly supported by Crist, Insurance Commissioner Kevin McCarty suspended the company's ability to write auto policies on Jan. 16 — a decision overturned by an appeals court five days later.

McCarty accused Allstate executives of using delay tactics in turning over documents related to the company's property insurance pricing structure, to be used for an investigation into rate increases.

Then, on Feb. 14, a state Senate panel running a similar probe asked the company for the same documents. And just this week, the state filed an administrative complaint, also. While Allstate's Florida subsidiary has been the most visible firm in the fight, it's not alone. A recap of the swings so far: First, Crist and a pack of similarly aligned politicians took aim at the industry with a massive insurance reform bill passed in early 2007. Now known as House Bill 1A, the legislation heavily championed by Crist more than doubled the state's funded catastrophe fund, from \$12 billion to \$28 billion. The hope was by doing that, insurance companies would be able to buy cheaper state-backed reinsurance and pass the savings on to residents.

But not every company's rates and rate requests went down. So last month, the state set up the Senate Select Committee on Property Insurance Accountability to investigate why rates didn't go down. Some of the committee's hearings, held Feb. 4 and Feb. 5 in Tallahassee, turned into biting, accusation-laden sessions, with a few legislators lashing out at some insurance executives. Allstate Floridian chairman and chief executive Joe Richardson took the most verbal hits.

More committee hearings were scheduled for the state capitol Feb. 19.

"If the legislators and Charlie Crist keep beating up insurance companies, there won't be too many of us left," John Auer, president and chief executive of St. Petersburg-based American Strategic Insurance says in an interview. ASI is the fifth-largest property insurer in the state and one of the biggest to have a corporate headquarters on the Gulf Coast. "In his desire to look like he's doing everything he can for homeowners, he's painting the insurance industry as the bad guys. I don't think it's justified."

The concerns of Auer, Richardson and others, such as Travelers Cos. chairman and CEO Jay Fishman, aren't merely selfish businesses concerns. Indeed, those executives are backed up by a wide and diverse group of think-tanks, policy groups and analysts. Florida's property insurance situation is teetering on a crisis, with the only salvation being that the past two years have been hurricane free ones in the Sunshine State.

"Despite the efforts over the past two years, the state has not provided consumers with adequate solutions," said state Rep. Don Brown, R-DeFuniak Springs, in a recent statement regarding the issue. "Most Floridians will eventually face huge and unbearable premiums due to a state-backed heavily-subsidized property insurance corporation. We need to figure out what kind of 'affordability' Florida can afford before we bankrupt our state and its 18 million residents."

Consider it the ultimate 'I told you so.' The industry has long maintained that for better or for worse, rates can only be set by a computer-generated risk analysis, not outright, price-dictating legislation. "We were looking for so long to try and squeeze rates," says Florida Insurance Council spokesman Gary Landry, "that we are now squeezing solvency."

SOLVENCY UNSOLVED

And solvency, or lack thereof, isn't just a word insurance executives are tossing around to grab legislators' attention. It's a legitimate concern, says Adam Shores, an Allstate Floridian spokesman.

It's also the starting point for how some insurance companies intend to fight back against the politicians, as well as begin to restore public credibility. "The industry," adds Auer, "doesn't do a good job getting its message out."

That message includes the fact that Allstate Floridian, for example, paid out just under \$1 billion more in claims than it received in premiums in 2004 and 2005, says Shores, the result of two consecutive hurricane-heavy seasons. It took a massive bailout from the insurance company's corporate office just to survive in Florida.

Shores also says insolvency isn't just a matter of one insurance company having to close down and go home, as some legislators implied in their questioning during the recent hearings. Allstate's presence is felt throughout the state, says Shores, with 300,000 homeowner's policies and 1.7 million auto policies.

There are also the company's 1,100 insurance agents. Those agents essentially run small businesses, employing an average of 3 to 5 people per office. All of those employees would be out of work if Allstate were forced to pull out of the state.

Richardson, Allstate's top Florida executive, spent most of his testimony time in Tallahassee talking about the solvency issue and why it trumps rate increases, no matter how painful that might be to citizens and politicians. On House Bill 1A, Richardson pointed out the bill didn't change the fact that through another law, rates must be "adequate, meaning that they must reflect the risk being insured."

And in 2007, when the bill was passed, Allstate's rates were not adequate, Richardson told the Senate panel. Hence the company asked the state to approve a rate increase of as much as 40%.

"If Allstate Floridian was going to have adequate resources to protect its customers in the event of a catastrophic loss," Richardson testified, "a substantial rate increase was needed."

Allstate isn't only relying on Richardson's testimony to get the message out. The company began taking out full-page ads in several daily newspapers statewide this month, expanding on Richardson's points.

'A GOOD GUY'

Meanwhile, the entire situation has left Auer, with American Strategic Insurance, in somewhat of an awkward spot. Auer, a native of Ohio, formed ASI in 1997 after working in the industry for a few other companies, including State Farm.

The company has grown its revenues every year since Auer founded it, to \$500 million in 2007. The growth, Auer says, is mostly the result of expanding to new markets, both in geography and property type. In 2001, for example, the company began writing policies in Texas and in 2003 it began marketing a new underwriting unit to reach condo associations.

ASI has 260,000 homeowner's policies in Florida. But the company not only didn't ask the state for a rate increase last year after House Bill 1A was passed, but instead lowered rates twice for a 23% total drop.

Auer says the rate decrease was complicated simplicity: Complicated because of the computer weather generated data that determines the risk formula. Simple, though, because when ASI's reinsurance firms across the world lowered their rates, the company was then able to pass on those savings to customers.

Auer was one of several insurance executives in the state to testify in Tallahassee earlier this month. But unlike Richardson, Auer says he came off as a "good guy" to the committee, thanks to the company's rate decreases.

Still, Auer isn't reveling in his newfound Tallahassee friends. He says Allstate's rate increases are a matter of using a different business model, including relying on some reinsurance from the corporate office as opposed to outside firms. Auer says he doesn't believe AllState, or any other insurance company for that matter, has colluded or acted unethically in any way to raise rates.

What's more, Auer says if Allstate or any other major insurance company were to go insolvent or be forced out of the state it wouldn't be good for his company.

"I feel like we have a very unstable business in Florida right now," says Auer. "I'd like to see those companies keep doing business here."

Solvency Solutions

State legislators and officials have been coming up with a few proposals designed to do what Gov. Crist's 2007 legislation, known as House Bill 1A, failed to do: Lower property insurance rates without forcing some of the biggest property insurers out of the state due to solvency issues.

The proposals include:

- Requiring insurance companies to use state-approved long-term catastrophe models, as opposed to short-term systems that tend to lead to higher rates. The Senate Select Committee on Property Insurance Accountability proposed this plan after a Feb. 5 hearing;
- Cutting back the amount of money the state has put into the Hurricane Catastrophe Fund by as much as \$3 billion. This plan, proposed by Florida Chief Financial Officer Alex Sink after conversations with state House Speaker Marco Rubio, R-West Miami, essentially is a partial do-over of House Bill 1A.

This proposal will likely lead to rate increases to make up for the lost money, Sink acknowledges, but it will also put some of risk back on individual homeowners, not the entire state's residents. The proposal would also likely lower the assessment a homeowner would pay in order to receive payouts from the catastrophe fund when a massive hurricane hits the state.

This plan, while not in official legislation form yet, has tepid support from some in the insurance industry. "We have not yet taken a position on it," says Florida Insurance Council spokesman Gary Landry. "What we do like is the concept."

HELP FOR BUSINESS?

Property insurance for homeowners has dominated the conversation in Tallahassee for the past few months. But two Gulf Coast legislators have been drafting a bill aimed at helping business owners, too.

The potential legislation, being drafted by state Sen. Mike Bennett, R-Bradenton and state Rep. Garrett Richter, R-Naples, would give business owners the choice of buying a commercial insurance policy that doesn't have to be assessed by the state's catastrophe insurance fund. Eliminating that provision, or at least allowing the individual business owner to choose if he wants it, would give business owners a more stable insurance bill, supporters say.

As it stands now, the premiums and assessments a business owner is paying could rise dramatically if, or when, a severe hurricane hits the state.

A SELECT COMMITTEE

The Senate Select Committee on Property Insurance Accountability is made up of 21 state senators, including five from the Gulf Coast. The local senators on the panel:

- Mike Bennett, R-Bradenton;