

WHAT IS GOING ON WITH INSURANCE IN FLORIDA?

I believe that it is very important that everybody understand the nature of the problems we all face in regards to property insurance in the State of Florida. First, we need to understand who all the players are in this complicated issue. They are Governor Charlie Crist, The State Legislature, the Insurance Industry, Citizens Property Insurance Company, The Banking Industry, and You, the consumer.

The Insurance Industry

Problems started when hurricane Andrew hit south Florida in 1992. Prior to 1992, Florida had not experienced any major wind storms for some time and the homeowner's insurance market was very competitive. The bulk of my policies were under \$500 in premium while the average replacement value of those same homes was less than \$200,000.

A number of issues became clear after Andrew. Most homes had not been built to code or the building codes were not appropriate, houses had been built in high wind-prone areas and the number of houses in any one area created a significant exposure that most insurance carriers in the State decided did not provide enough reward for the risk involved. In an effort to remain in the market, most of the Standard carriers such as State Farm, All State, Nationwide, Travelers, etc. converted their Florida personal lines book of business into what is now known as PUP companies.

These are stand alone companies that cannot come back to the parent company to help out in the event another Andrew hit the State. This protected the parent company from being impacted with Florida issues, while at the same time continuing to providing a market to existing clients. They also purchased adequate reinsurance from world markets to provide a layer of protection above what the writing company had in surplus, so that if needed, the promise of coverage could be honored.

It is important to understand that prior to Andrew, the Florida insurance department seemed to be focused on making sure insurance companies in this state were financially solvent but after Andrew the direction has been one of regulation, regulation and more regulation. Our Governor, Charley Crist, has called the insurance industry evil. Robert Hunter of Consumer Federation of America, a consumer advocacy group has labeled the industry as greedy. This name calling has been hurtful, unprofessional and I feel has pointed people away from the real issues and prevented people from understanding how perilous conditions are in this state. I know for a fact that when the tornadoes hit my clients in December and February, the insurance companies stepped up to the plate and did their job. They also did a great job under very difficult circumstances in 2004 & 2005. Clients have asked, "What happened to all the money these companies took in since 1980", and my response is they have been paying claims. Please see the table below for a reflection of losses for just one of my carriers. A loss ratio of over 80% is a real problem. This company's loss ratio year to date is 472.4 and for the last four years is 191.2.

TOWER HILL INSURANCE GROUP COMPANIES

April 1, 2007

	Written Premium	Paid Losses	Earned Premium	Incurred Losses	Loss Ratio
Current Year to Date	\$95,369	\$373,277	\$87,299	\$412,379	<u>472.4</u>
Year 2006	\$250,190	\$42,330	\$219,774	\$27,235	12.4
Year 2005	\$205,147	\$148,460	\$180,885	\$78,053	43.2
Year 2004	\$178,246	\$728,453	\$160,624	\$890,550	554.4
Year 2003	\$122,183	\$19,817	\$101,366	\$25,762	25.4
Grand Total	\$851,135	\$1,312,337	\$749,948	\$1,433,979	191.2

Homeowners business has not been a money maker in this state for many years. People have fires, dog bites and of course tornadoes. Robert Hunter says the companies are greedy. In truth these companies are stock insurance companies that are required by their stockholders to make a profit. If these companies do not feel they have a reasonable chance to make a profit, then they will allocate their capital into markets that will provide that opportunity. This very principal is what has made this country great and created such long term opportunity for growth. Because of over-regulation, the predictions of higher major storm activity and direction of the state-run Citizens Property Insurance Company, most of the standard insurance carriers would be happy to leave this state entirely. Some have already left. We have no competition in this state because our Governor and Legislature have set up a socialistic system that rivals what Hugo Chavez is doing in Venezuela. Even a company like USAA, which is a mutual company, owned by all its policyholders, has decided that they do not want to do business in Florida. They all know what you do not. Florida is sitting on a time bomb. This leads us to Citizens Property Insurance Company.

Citizens Property Insurance Company

Citizens Property Insurance Company (CPIC) is the time bomb. CPIC was supposed to be the market of last resort. It wrote the risk nobody else wanted; homes that are next to the ocean or near the ocean, homes in sink hole-prone areas, homes over fifty years old, basically risks that one would think would generate much higher premiums than the average risk. However, because this company is owned by the state, the premiums have been artificially reduced and of course when the storms of 2004-2005 hit over **\$3.8 billion** dollars was lost. Because CPIC is state-owned that means you and I are owners so we get to share in the losses by paying assessments. If you look at your homeowner's policy you will see a number of assessments that you are paying, two which are for CPIC. I would like to call the assessment what it really is, TAX. This tax is a method in which people with newer or protected homes built in areas that are not prone to claims can help pay for the protection of those that chose otherwise. As of January 2007, CPIC was set to have a 25% rate increase of which the bulk of the increase would have been in the southern part of the state. Governor Crist rode in on his white horse and declared premiums were too high and without any actuarial basis, he eliminated the rate

increase. Then he declared that in order to provide competition, the CPIC was going to become a primary market in the state. Then he declared that the state was also going to provide cheap reinsurance to all the insurance carriers in the state so they could reduce their premiums. This made everybody very happy and our Governor very popular. I do not know about you but I have not seen these low premiums. As a matter of fact, what I am seeing is my standard carriers eliminate additional policies in an effort to reduce their exposure in this state and what they expect the fallout to be from the massive growth in CPIC. CPIC is not collecting enough premiums to pay its claims and the state is not charging enough reinsurance premiums to pay for reinsurance claims. If we have any major storms hit our state we will all be taxed on our future policy renewals. The new law includes taxes on all policies issued in the state except workers compensation and medical malpractice policies. This is the time bomb. In an effort to provide the people of this state, especially people in the southern part of the state cheap subsidized insurance we no longer have spread the risk across the world by using the traditional capitalistic system of reinsurance markets. The state of Florida now bears the full burden through the socialistic system created by the Governor and the Legislature. Ole Charley is like Robin Hood but in reverse. He is stealing from the poor and low risk insured's and giving it to the rich and high risk insured's. Attached is a table of current taxes, (Ole Charley likes to call them assessments) on your homeowners & auto policies and what the maximum taxes you can look forward to in the event of a Katrina event. Oh! Keep in mind these taxes will be for ten years or more and will also now be on your auto policies. One can only wonder if Ole Charley is praying that he will be Vice President of the United States before you figure out what he has done to you.

Now it is very clear Ole Charley hates insurance companies. He stated that the insurance industry had record profits last year. While this is the truth, it is not the truth in the context of his subject – property insurance in Florida. Property insurance carriers did not make record profits in Florida, which brings me to another player in the game, The Banking Industry.

The Banking Industry

It was a short time ago when The Banking Industry (TBI) was biting at the bit to get into the insurance game. Finally, they got into the game and you should remember Citi Bank buying Travelers and other deals of that nature. How come Ole Charley has not mentioned the profits that have been generated in TBI? How come he is not demanding that the banking industry take advantage of their newfound ability to write insurance and force them to place coverage on the property they so willingly loaned money on assuming no risk and making all profit? Could it be that Ole Charley is in the back pocket of TBI? Where would TBI be if CPIC did not exist? Who would cover all the loans and exposure on all that property next to the ocean? Why is TBI not at the table of risk and only at the feeding trough of profit? I only wonder! Are we paying for this?

The Consumer

This leaves me with the last player in the game. That is you the consumer. It is critical that we take every step possible to reduce our exposure and protect our property. It is imperative that we make every effort to understand the issues and that we make our elected officials know how we feel. Please understand that all but two legislatures voted in support of Ole Charley's insurance giveaway program. We all want lower insurance premiums, lower gas prices, and lower property taxes. We need to make sure that we also understand the consequences of our actions and that they make just a little bit of common sense.

We are left with a number of new start up insurance companies that have been formed with very little capital and are relying on the State of Florida to provide the reinsurance. Again, I wonder what's going to happen when these companies try to get money from a bankrupt state. Ask anybody you know how well CPIC paid their claims in 2004-2005. CPIC has grown from less than 500,000 policies to over 1,300,000 and is growing at a rate of 80,000 policies a month. All these policies are under-priced. In September, CPIC is going to start writing commercial policies as well. I'm truly at a loss to understand how far down the rabbit hole we have gone. I do know that our capital for profit system will not operate alongside a socialistic system and will not assume exposures generated from the failures of that system. Currently the state requires companies to pay the taxes up front in January and then collect them from you as your policy renews. The state even required the companies to put a two line statement on all homeowner's renewals to tout the fact that the state used \$750,000 of your tax dollars to pay down part of the CPIC tax (assessment). This action or regulation is an example of pure government waste. This action cost each carrier millions of dollars in reprogramming fees.

I do not have a solution but I do not think chasing our A+ rated standard carriers out of the state will help. I know that the government cannot do a better job. I believe that less regulation and the opportunity for profit will create more competition and that people who own property in high loss-prone areas should, and eventually will be paying a great deal more to protect their property.

Respectfully Submitted,

Joseph "Barney" Lane