

MiamiHerald.com

Posted on Mon, Jul. 16, 2007

State CFO reflects on Florida's unique financial challenges

By BEATRICE E. GARCIA

Talk about being thrown into a tough situation.

Two weeks after Alex Sink was sworn into office as Florida's new chief financial officer, lawmakers embarked on a 10-day special session to come up with ways of lowering insurance rates and providing some respite for the state's beleaguered homeowners.

"I was still trying to find the ladies room," recalled Sink during an interview with The Miami Herald last week.

The end result of the special session: The Florida Hurricane Catastrophe Fund was expanded to \$28 billion, allowing insurers to buy less expensive back-up insurance. The expectation around Tallahassee was for insurers to pass on the savings to policyholders, with rate cuts averaging 20 percent or so.

Six months later, the promised savings haven't materialize -- and state officials, including Sink, are a bit miffed.

In fact, at least five insurers have filed to raise rates later this year. One company, Florida Farm Bureau, said it had lined up its reinsurance for this hurricane season before the CAT Fund was expanded, so it was locked into the more expensive back-up insurance. It needed to charge higher -- not lower -- rates.

Even if all the promised rate cuts don't materialize, the CAT Fund has taken on a lot more risk. If it runs out of cash to bail out insurers, the policyholders will be asked to make up the difference.

Coping with the state's continuing insurance crisis, which now includes auto insurance since Florida's controversial no-fault law is set to expire in October, are all on Sink's plate these days.

Q: Are state officials considering any measures to beef up the CAT Fund's cash position in case a major storm hits Florida?

A: The idea is to do some "pre-event financing" -- borrow some money and get more cash in the bank.

Last year, the CAT fund borrowed \$2.8 billion. There are proposals floating out there that would have us going as high as \$10 billion. We would have to borrow that money.

It won't be cheap. It's all about having money available to pay claims in the event of a big storm.

Q: What happened to those rate cuts that homeowners had been promised?

A: Who told us that we were going to see 20 percent rate reductions? It was the OIR [Office of Insurance Regulation], which hired Robert Hunter [insurance director for the Consumer Federation of America and former Texas Insurance Commissioner] for pretty big money to do an analysis of what we could anticipate.

My question is -- and I'm going to bring this up to the [Florida] Cabinet -- we heard 20 percent and we got 10 percent. What happened?

We took on an enormous amount of extra risk (in the CAT Fund) because we all agreed our policyholders were hurting, our economy was hurting and we needed rate relief.

We should always go back and find out whether it was a miscalculation, bad information or whether in fact the insurance companies aren't doing what they were supposed to be doing.

But think about this: State Farm was out there from the get-go, saying "our rates could come down between 8 percent and 10 percent."

Citizens wasn't [directly] impacted by the CAT Fund changes, but it was out there saying "our rates might come down about 10 percent."

So, between State Farm and Citizens, that's 50 percent of the market.

How do you get 20 percent if 50 percent of the market is saying they are only going to [drop] rates about 10 percent?

Q: What's your view of the allowed expansion for Citizens Property Insurance, the state-run insurer? It will be writing more commercial coverage. For some kinds of risk, such as condo associations, it's practically the only insurer around.

A: There are a couple pieces of Citizens that we should really worry about. One is do we want [Citizens] to be insuring continued condo development on the beach? We need to have a serious policy discussion about how much we want Citizens to cover.

I know that Citizens is looking at this and OIR is looking at this. Do we want to say beyond a certain date we won't insure any new coastal development or do we say we will insure up to a certain dollar amount?

A month ago, we flew into Fort Lauderdale and we were going to the Fontainebleau Hotel. I said to my husband "Let's take A1A." We drove through Aventura and Sunny Isles, all the way down. It was stunningly frightening.

It's just the real estate market in South Florida -- feast or famine. But now I'm seeing it through a new lens: Oh my gosh. Citizens is probably going to write the insurance on every single apartment and every one of those new buildings.

Q: What's the other part of Citizens that gives you pause?

A: During the special session when the Legislature rolled back the 25-percent rate increase that Citizens was supposed to have this year, right from that moment -- assuming that was an appropriate rate increase -- we put them under water in terms of having actuarially sound rates.

So then they -- not me -- passed a law [during the regular session] that said no premium increases until 2009. How much more actuarially unsound do we want them to be?

The way I look at it is that we're shareholders of Citizens Property Insurance. It's my company. It's only fair to have shareholders know what risk is there and what the potential exposure is.

If the company goes bankrupt, I'm going to have to write a little check [to cover Citizens' assessments] -- maybe not so little -- and it might be for a lot of years -- could be up to 30 years.

Q: What about the state's no-fault law? Sunset or reform?

A: If the decision is made to keep PIP, then we have to have some limits on utilization and we have to have a fee schedule. We can key [the price limits] off Medicare. Make it 200 percent or 300 percent of Medicare, somewhere in this range.

And we should have more money for fraud investigators so we can hire them at competitive salaries.

© 2007 Miami Herald Media Company. All Rights Reserved.
<http://www.miamiherald.com>