

THE FLORIDA HOUSE OF REPRESENTATIVES



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Key Lawmakers and Premier Think Tanks Unveil “F” Grade on National Insurance Report Card, Study Outlining Florida’s Insurance Ills

~ Fundamental problems have stifled property insurance market ~

TALLAHASSEE, Fla. --- Rep. Dennis Ross (R-Lakeland) and Rep. Don Brown (R-DeFuniak Springs) announced today that Florida’s insurance market has earned an **F** letter grade as a result of risks the current property system poses to residents of the state. The dismal rating – the lowest possible – is the outcome of a recent national study comparing the insurance environments in all 50 states and the District of Columbia. Florida is one of just five states to receive a failing grade.

Rep. Ross and Rep. Brown presented the report card and study in collaboration with The James Madison Institute (JMI), Florida’s leading public policy think tank, the Competitive Enterprise Institute (CEI) and Heartland Institute.

“Our property insurance market has become a real liability for Florida’s residents,” said Rep. Ross. “Legislation enacted last year has created a system that stifles any opportunity to bring private insurers to Florida. The failure of the market and the counter-productive regulations imposed by the state has created one of the worst scenarios our taxpayers could face.”

“Despite the efforts over the past two years, the state has not provided consumers with adequate solutions,” said Rep. Brown. “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.”

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In coordination with the initial release of the failing grade, JMI also released a report, *Restoring Florida's Insurance Market* that examines the development of the state's wind storm insurance system, the likely fate of the current system, and a variety of proposals for reforming it.

"We know from experience that when Florida is in the path of a hurricane, we will suffer more damage than any other state," said Bob McClure, president and CEO of JMI. "Florida must develop a better strategy to deal with the enormous risks associated with these storms. Today we are faced with a dangerously unstable insurance market, as a result of the dominant involvement by state government."

According to the study, recent insurance reforms passed in 2007 failed to achieve lasting rate reductions for property owners and caused massive liabilities for taxpayers. Furthermore, the reforms caused many private insurers to reduce or eliminate their exposure to Florida's overwhelming risks.

"In the end, the real losers here are the people of Florida," McClure added. "The system is so unstable that it seems almost inevitable that Florida will need massive tax increases to pay for it. In the end, nobody wins."

The 2007 legislation, passed in special session, contained two key provisions. The first allows the Florida Citizens Property Insurance Corporation to compete directly with private insurers for most coastal business. The second greatly expands the Florida Hurricane Catastrophe Fund's role in providing backup reinsurance coverage for Citizens and the private companies operating in the state. It pays off only when claims exceed a certain "catastrophic" level.

According to insurance experts and economists these reforms are not working and have forced the state's taxpayers to assume overwhelming risks:

- The Florida Hurricane Catastrophe Fund (The Cat Fund) has failed to produce promised reductions in consumer rates.
- Florida could potentially issue \$30 billion in bonds to back the Cat Fund when a catastrophe occurs. Not even the catastrophe fund's own guardians at the State Board of Administration know for certain if the state could actually find buyers for these bonds.
- The Cat Fund would collapse and leave liabilities for the insurers and state if not enough bonds are sold.
- Citizens has written far more policies than the state anticipated.
- Existing laws allow Citizens and the Cat Fund to impose massive new taxes (or "special assessments") without legislative or voter approval.

- Floridians' homeowners and automobile insurance policies receive these taxes; the system in place could easily raise our household premiums by \$1600 a year.

The study concludes making modest reforms to the system will not be meaningful, nor will Floridians begin to benefit from receiving the coverage they need at an affordable price.

“Florida has taken a long time to create its current property insurance system” said Eli Lehrer, an adjunct fellow of MI and a senior fellow at CEI. “This system, created by the state, it has serious, serious flaws. Reform won't happen all at once, but there's no reason to think it can't happen. In fact, it must happen.”

Participants at today's press conference outlined a series of recommendations going forward to help solve the insurance crisis:

- Create a limited purpose wind-only insurer and phase out Citizens as it currently exists. Reduce the Cat Fund's liabilities and mandate the purchase of private reinsurance. Rep. Ross has introduced a bill that would accomplish this.
- Establish a national coastal wind insurance zone that would fall under special federal regulation but would not receive any federal subsidies.
- Offer property tax credits (paid by the state, administered through local government) to encourage mitigation and help people of modest means to purchase private wind insurance. South Carolina offers wind insurance credits just like this under its income tax system. New York and Virginia, among other states, provide relief of local taxes through state-level actions.

McClure added, “Only by restoring free market principles and allowing competition to bring insurance costs down will Florida benefit from a financially sound system that will help protect the state's vibrant economy.”

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*The **James Madison Institute** is a non-partisan, non-profit public policy research and education organization based upon ideals such as limited government, economic freedom, individual liberty and personal responsibility. Visit jamesmadison.org for more information.*

*The **Competitive Enterprise Institute** is a non-profit policy organization dedicated to advancing the principles of free enterprise and limited government through research and promoting solutions at all phases of the public policy debate. Visit CEI.org for more information.*

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