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Don Brown: It's time Floridians pay the true cost of insurance

As most Floridians know, the annual Atlantic hurricane season is almost upon us. This is a fact of life in our beautiful peninsula.

However, for decades most of us have deluded ourselves about the financial risks of living in paradise, suppressing insurance and reinsurance prices and relying on risky borrowing rather than sound investments to prepare financially for our inevitable storms.

Thankfully, there may be light at the end of this storm tunnel, as an increasing number of Florida's leaders have begun to consider sensible reform of our Hurricane Catastrophe Fund (Cat Fund) and Citizens Property Insurance Corp.

Last week, Cat Fund Chief Operating Officer Jack Nicholson, for whom I have the upmost respect, wisely suggested to the Cat Fund advisory council that the time has come for it to more appropriately align the Cat Fund's coverage obligations with its funding potential. This will require a realistic restructuring, given financial market volatility.

Among other ideas, such restructuring would include reducing the mandatory coverage layer of the Cat Fund by \$5 billion over a three-year period. It is necessary to phase in changes so as not to disrupt the market.

A reduction in the mandatory layer, which would more accurately reflect our ability to borrow, would have some upward pressure on rates, but that is the hard reality — and at the very heart of our problem.

Why are these overdue reforms so necessary? One reason is that, based upon dynamic changes in the financial markets, the Cat Fund recently revealed that it is only marginally able to meet its total claims-paying obligation for one season.

Any expectation of coverage for second-season events, and maybe subsequent events in the same season, is pie in the sky. Even that glass-half-full estimate aggressively assumes the Cat Fund can pull off a historical record sale of some \$11 billion of bonds while our state suffers in the aftermath of a large hurricane, not to mention that Citizens and the Florida Insurance Guaranty Association may be in the financial markets borrowing at the same time.

One of the Cat Fund's advisers estimates that borrowing capacity is really closer to \$4 billion, much less than the \$11 billion "best case" estimate.

For too long we have been fooling ourselves and Florida homeowners into thinking that if we ignore this problem it will go away. In the meantime, consumers, deprived of the correct pricing signals, continue to build beyond their means and, in some cases, in very dangerous places.

It's not just folks who build on the beach; it's also folks who live in Orlando, for instance, and divvy up their monthly mortgage and insurance budgets based on real mortgage costs but imaginary insurance cost. We don't do anyone a service when we mislead them.

Let me ask a rhetorical question. Actually it is a trick question.

How much do you believe the next \$50 billion storm will cost Floridians?

The correct answer is not real complicated. You see it doesn't make a flip what the governor may say from the statehouse steps. The Legislature can pass new "consumer friendly" laws until the cows come

home. The Office of Insurance Regulation can refuse to grant actuarially sound rate filings until kingdom come.

But the bottom line is that, when the next \$50 billion storm hits Florida, somebody is going to pay \$50 billion.

If insurance companies, deprived of adequate rates, go broke, then homeowners will have to pay it. If homeowners don't have enough money in their pockets to pay, then it will be reflected as a reduction in their net worth. Nobody should be fooling anybody — it will cost somebody \$50 billion.

When are we going to realize insurance and insurance companies are *not* the problem? The cost of hurricanes, human behavior — taking more risk than we can afford — and the government's absolute insistence on misleading consumers about the "real" cost of living in paradise, that's the problem.

Citizens' rates need to be higher, much higher. This is a documented fact. Citizens' own actuaries have testified under oath that their rates are not actuarially sound.

We need to listen to Nicholson's advice. The Cat Fund needs to be adjusted to more accurately reflect its original goal of contributing to a stable insurance market in Florida. It should not be tortured beyond all reasonable limits and beyond its ability to perform.

If that causes some pain, then I can only suggest that, if we do nothing, it will be far more painful when Florida homeowners begin paying 30 years' worth of bond debt they were never told about. If that happens, somebody's head is going to roll, and I will be the last one to say, "I told you so!"