Property insurer seeks more, not less

St. Peterburg Times A 30-percent rate-hike request from the Florida Farm Bureau may signify an unwelcome trend.
By Tom Zucco
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TALLAHASSEE - State regulators got a sneak peek Tuesday at what could be the shape of property insurance rates to come. For thousands of Florida Farm Bureau Insurance policyholders, it was sobering news: Rates could be headed up, not down. And if the pattern continues, Florida's grand plan to lower homeowner premiums statewide could fizzle. Florida Farm Bureau is the first of about 130 insurance companies to make its final rate request for 2007-08. The rate filing is needed to reconcile differences between what the companies originally thought it could save by buying more reinsurance from the Florida Hurricane Catastrophe Fund and their actual savings based on final reinsurance agreements. During two hours of intense questioning from senior members of the Florida Office of Insurance Regulation, officials from Florida Farm Bureau defended a proposed 30.3 percent average rate hike for its 140,000 homeowners policies, including about 10,000 in the Tampa Bay area. The increase, which would be effective Oct. 1, comes just a month after the company said it could lower rates a statewide average of 24.9 percent based on legislation passed in January. The reason? The company said it underestimated its need for reinsurance. The new law allows insurance companies to buy relatively inexpensive backup coverage, or reinsurance, from the state-backed CAT Fund. Insurers must then pass the savings on to policyholders. Regulators estimated the companies could reduce premiums an average of 24 percent statewide, but after the companies made their initial filings, the savings were closer to 11 percent statewide. So regulators hung their hopes on the second, and final, rate filing. Called "true-up" filings, these rate requests are designed to reflect what the companies actually saved by buying reinsurance from the state. That rate decrease was pegged by regulators at an average of 15 percent. But so far, at least five insurers, including Florida Farm Bureau, have filed for rate increases, ranging from 18 to 80 percent. The central issue is reinsurance - how much the insurance companies buy, where they get it, how much they pay for it. Florida Farm Bureau chief actuary Melissa Shelley argued that most of her company's reinsurance contracts were signed before the Legislature expanded the CAT Fund, and that the company needed more reinsurance that wasn't available through the state. Instead of getting rid of private reinsurance that duplicated what it buys from the newly expanded CAT Fund, Farm Bureau kept the contracts in place, providing reinsurance above what the CAT Fund covers. "It was not an option for that coverage duplicated by the CAT Fund to simply be dissolved," Shelley said, adding that the proposed rate hike was "amply supported." Office of Insurance Regulation actuary Bob Lee peered up from his reading glasses. "Well," he said, "that's your opinion." As regulators take Farm Bureau's proposed rate hike into consideration, Steve Parton, the office's general counsel, said he would not call the request a template for other insurers lining up to make their pitch before the Sept. 30 deadline. Regulators, Parton said, look at each company's filing on its own merits. "On the other hand," Parton added, "I'm concerned about what I heard today. If we keep seeing an increase in rates for the same basic reasons, we may have a problem."