Re-Reforming Insurance

Florida Trend
November 1, 2007 A band of insurance reformers thinks it has found a better answer. Can it find a political sponsor to champion it?   by Neil Skene

Don Crane is one of those people — and there are many — who think the state’s headline-driven property insurance “reform” was slap-dash and superficial at best. But Crane is also one of those people — and there aren’t many — who doggedly take on big, intractable problems just because they need a better answer.

Trying to induce insurance companies to lower premiums right away, the Legislature engaged in a sleight of hand last January that shifted a lot of the risk from the private companies to the people of Florida. But the insurance companies didn’t lower rates and kept dropping policies. Meanwhile, the move put the state’s citizens on the hook, in a worst-storm scenario, for as much as $200 billion in potential assessments by state-sponsored Citizens Insurance.

Unacceptable, says Crane: “The hurricane insurance issue will never be resolved with the current structure.”

Now 73, Crane is the founder and first president of the well-regarded Floridians for Better Transportation and the far-sighted crusader for what is now the Suncoast Parkway and for transportation bonds and toll roads in Pinellas County. Looking for a better insurance structure, he started soliciting ideas and reactions from people in his considerable Rolodex, which goes back to a term on the old state road board under Gov. Claude Kirk (1967-71) and two terms in the state House (1970-74).

Crane assembled a group, first enlisting his daughter-in-law, Selina Crane, a vice president at Wachovia Insurance and an underwriter. Others included retired corporate lawyer William Ballard, oil distributor Bud Risser, catastrophe claims specialist Dan Montgomery, insurance consultant Jim Marshall, and Richard Winning, whose family owns the Derby Lane dog track in St. Petersburg.

Crane says he was shocked that no one, including state regulators, seemed to know what portion of property-insurance premiums was hurricane-
related. Insurance Commissioner Kevin McCarty didn’t respond to his letters, he says, which “hacked me off” and heightened his determination.

Eventually, Crane’s group adopted a figure of $11.2 billion in hurricane-related premiums — slightly more than half of the $21.5 billion total property premiums estimated for 2007. Using that number, his work group evolved a dramatic plan — a complete state takeover of hurricane insurance — that’s comprehensive, compelling and a little complex (as are most good solutions).

Crane’s plan takes the taxpayers off the hook for huge disaster exposure by creating a state-sponsored company tagged the Florida Reinsurance Corp. that’s properly capitalized and not stuck with just the exposure that private insurers don’t want. The corporation would receive all hurricane-related premiums from a dozen different lines of insurance, including commercial, marine and residential, and then “reinsure” private companies for everything above the property-owner deductible. It would absorb all the hurricane business from state-sponsored Citizens Insurance as well as the state’s hurricane catastrophe fund and the high-risk insurance pool.

Every property insurer would have to participate and offload its windstorm risk and its windstorm premiums (less a sales fee) to the new state corporation. Premiums after expenses would create reserves, capturing the money now going to insurers’ profits and their unregulated captive reinsurers. The reserves, supplemented by bonds, would be invested in the stock market in the same manner as state employees’ pension funds.

To improve fairness, properties would be individually assessed for underwriting risk. Ideally, private carriers would make the evaluations for a fee and subject to state auditing. Private carriers would also handle claims, again for a fee and subject to audits or standards to avoid unreasonable settlements.

The approach could achieve modest premium reductions but would at least provide greater confidence about both the availability and cost of insurance in the future. Some big ifs

Some important issues remain. The plan hinges on federal loan guarantees to cover the higher dollar exposures, a big complication. The federal government generally responds to disasters with bailouts and loans afterward.

In addition, the plan needs a “stress test” of how cash flows would work in a full range of disaster scenarios. It also has to find a way to cope with the current distress in bond markets since the meltdown in subprime loans. (The Crane plan requires one of the biggest state bond sales ever.) But Crane’s band of volunteer problem-solvers can’t pay for these detailed studies on its own.

The plan also lacks, for the moment, the enthusiastic interest of a powerful political sponsor. Back in May, Crane and Ballard got an audience with former Florida Comptroller Bob Milligan, now the insurance ombudsman for Chief Financial

Officer Alex Sink. Milligan began providing data and projections to the Crane group, suggested several refinements to the plan and even showed the concept to a selection of politicians and industry lobbyists to test reaction.

In late September, though, Sink bailed out. Milligan cites “concern regarding the potential impact on the state’s position in the bond market at the same time the state was dealing with a financial challenge in the budget area and attempting to take action with the CAT fund.” The state previously wanted to sell bonds to shore up the financial strength of the existing catastrophe fund, but the turmoil created by the collapse of many subprime loans forced the state to defer the sale. “Our effort was to see if their idea made sense,” Milligan says. “In a different fiscal environment, it could deserve a full examination.”

From a risk standpoint, though, the proposal is no worse than what the state already has — with Sink’s support. Sink’s reasons why we can’t do it apply equally to the current state of affairs, particularly if you assume that insurance policyholders (the ones currently at risk) and state taxpayers are largely the same group of 17 million people.

If Sink isn’t interested in the idea, others are. State Rep. Dennis Ross, R-Lakeland, dethroned as House insurance chairman after he voted against the January legislation, has seen the plan. “Two years ago I would have thought it was ludicrous,” he says. “Today I would welcome the idea.” While he would ultimately like to see a revival of the private market, he sees something like the “reinsurance corporation” as a necessary transition to restore stability to the market.

If the state created such an entity, Ross adds, it could always sell off parts of the business to private carriers as they regain interest in the Florida market.

Senate insurance maven Bill Posey declares, noncommittally, that the proposal is “worth further study,” though his own focus is on strengthening structures that don’t meet building code.

The Crane proposal may not be perfect, but it does refuse to complacently accept the current Rube Goldberg, politics-dominated structure. Just consider what we have now: Start with a discredited regulatory policy in the Office of Insurance Regulation — how can the regulator in charge of all this still be in office? Then there’s the discredited, politics-dominated last-resort insurer that has unintentionally become the biggest property insurer in the state. Add in the abominable subsidy of beachfront development, a half-baked state reinsurance fund, demagoguery toward the insurance industry, taxpayer subsidy of structure “mitigation” (meaning strengthening), haphazard application of mitigation discounts by insurers ... Gee, what else? Oh yeah, utterly false assurances about rate reductions and horrible— “frightening,” says Sink — exposure for the state, its taxpayers and its property owners in an extreme hurricane season. A little boldness?

If Gov. Charlie Crist wants to turn his anti-insurance posturing (so far completely ineffective and even counterproductive) into something constructive, he might embrace what Crane & Co. have come up with. It hasn’t come out of the blue and isn’t even all that new. Allstate Insurance pitched a similar plan in 1995, after Hurricane Andrew. The Florida Association of Insurance Agents has suggested the approach for residential properties only.

Meanwhile, Crane & Co. press on. Could their approach get us out of the mess the Legislature and the elected Cabinet have left us with? Without a little boldness from someone in state government, we may never know.