



Property Casualty Insurers
Association of America

Shaping the Future of American Insurance

2600 South River Road, Des Plaines, IL 60018-3286

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Letter to the Editor
USA Today

Dear Editor:

Your coverage of Florida's insurance crisis ("Insurance Rates Pummel Fla. Homeowners," October 26, 2006), shines a spotlight on a problem that has both economic and political roots. It is a direct result of the inability of public policymakers and the private market to find the right balance between the supply of insurance coverage and the demand for insurance protection from the state's personal and business consumers.

Treading the narrow ground between this fundamental economic principal is a political process with a vested interest in keeping the price of insurance as low as possible – in many cases lower than the actual cost of insuring the risk. It's in the best interests of politicians to keep rates artificially low because it keeps constituents happy (at least for the short-term) and it fuels Florida's development-driven economy.

The reality is that Florida's insurance market – unlike the market for gasoline, home loans, or telecommunications – has never been allowed to function under a free enterprise system. When insurers made it clear to public policymakers that because of regulatory rate suppression they could no longer afford to write business in some parts of the state, legislators responded by making the state the largest insurer in Florida. Now that state-run company is broke for the simple reason that the government did not charge enough premiums to pay for the losses. And every policyholder in Florida is being assessed to make up the difference. Government didn't solve this problem. They disguised it, hoped it would go away, and ultimately made it worse.

Some claim that the private market has failed consumers in the state, or at least has contributed to the crisis we are now facing. It's true that insurers weren't forced to write business at state-approved prices many in the industry believed were far too low. But what we couldn't have foreseen was the new paradigm of multiple storm seasons that most experts predict will be the norm for the next decade or more. While we dodged a bullet in 2006, no one seriously believes that the threat of a major catastrophic loss has passed with this year's storm season.

That fact is that insuring property in Florida will always be more expensive than insuring property in other states. It's time all of us – elected officials, insurers, businesses, and consumer groups – realized this and stop pretending that we can pay for a hamburger and expect to receive a steak. Instead, we need to come together to develop a public/private partnership that reduces government intervention, attracts private capital back to Florida, and helps all consumers stabilize and, hopefully, reduce the cost of their coverage over the long-term. There are many possible components of a legislative package that would achieve these goals.

Strengthening and enforcement of strong building codes in all parts of the state as well as reasonable land development regulations are a good start. It does no good to provide people an incentive – in the form of artificially suppressed insurance premiums – to build in high risks areas. Moreover, policyholders who take steps to mitigate their losses should be rewarded with premium reduction incentives, tax credits to offset their costs and grants to get them started with their mitigation efforts.

Passage of a federal tax bill that would allow insurers to set some profits aside and build their own tax free catastrophe reserves would allow companies to "pre-fund" catastrophe losses and reduce pressure to raise rates in the wake of a hurricane. And liquidity protection for the state's catastrophe insurance fund in the form of a line of credit from the federal government should also be considered.

Real change based on sound economic principles is what's needed in Florida. It's not the easy way out of this crisis, but it's the right way.

Sincerely,

June Holmes
Acting Chief Executive Officer
Property Casualty Insurers Association of America