

# Risky Business

*Government-supported insurance lowers hurricane premiums*

**H**urricane Andrew's devastation in 1992 forced Floridians to take a hard look at building codes, a process credited with making the state an early national leader in hurricane protection. Fifteen years after Andrew, an outcry among Sunshine State residents over spiraling premiums has pushed lawmakers toward more sweeping reforms — this time in insurance.

But as a similar outcry builds in other coastal states, it remains to be seen whether Florida's insurance reforms will prove as visionary or durable as its building code reforms.

In a two-week special session in January, newly elected GOP Governor Charlie Crist seemed to surprise members of his party and the state's insurance industry with the way he lived up to campaign promises of dramatic change. As Crist repeatedly reminded lawmakers, he had the overwhelming support of Florida residents, many of whom had experienced triple-digit increases to premiums in the aftermath of the 2004 and 2005 hurricanes.

The self-styled "people's governor" convinced lawmakers to remake state-run Citizens Property Insurance Corporation, which has more than 1.2 million policies and ranks as the state's largest home insurer. Under his leadership, Citizens went from the most expensive insurer-of-last-resort to one permitted not only to offer lower prices than private insurers but also to compete with the privates in offering standard, less risky fire and theft coverage.

The reform that makes the most immediate difference to Floridians, however, is one that doubles the amount of low-cost reinsurance made available by the state. Reinsurance is



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A year after Hurricane Ivan swept through Pensacola Beach, Fla., debris still lined the roads. Lucky for Florida, the next big one struck Louisiana. Would the state be able to afford back-to-back hurricanes?

essentially insurance for insurance companies. It assumes all or part of the insurance company risk of a disaster.

Under the new law, private insurers and Citizens can buy reinsurance from Florida at below-market rates — but they are required to pass along the savings to consumers. That was the main reason for anticipated premium cuts of between 5% and 40%.

Only two Florida House members voted against the new insurance bill. Rep. Dennis Ross, R-Lakeland, was one. In an op-ed piece in the *Tampa Tribune*, Ross noted that allowing the state to sell more reinsurance opened it to risk from a major storm or repeated storms.

"Insurance companies will receive the benefit of low-cost insurance, but when it comes time to pay that reinsurance, and the exposure is \$30 billion,

the state does not have the money to cover the loss," Ross wrote. "The question then becomes, what happens when there are multiple storms and successive bad storm years?"

Supporters countered that the assessment was shortsighted. J. Robert Hunter, director of insurance for the Consumer Federation of America, noted that while it is true Florida could suffer in one bad storm year, actuarial projections show the state will come out ahead over a longer period by selling more reinsurance.

"There's danger in the short run, but not in the long run," says Hunter, who was hired by Citizens this past winter as a consulting actuary on the rate reductions. "If you trust your calculations, using the best models over a 30-year period, the state would be better off."

The Florida reforms are important

because other states face similar pressures as more and more residents flock to state-run pools — a migration resulting from private insurers up and down the coast either dropping policies or refusing to write new ones.

Although no company has totally dropped policies, residential policies in government Fair Access to Insurance Requirements (FAIR) plans soared from about 1 million in 1996 to 1.9 million in 2005, according to the Insurance Information Institute. Exposure climbed from \$122.5 billion to \$387.8 billion.

The year 2005 is the latest for which national figures are available, but the number has likely ballooned since that year. Policies and exposure at the South Carolina Wind and Hail Underwriting Association (SCWHUA), for example, shot from 20,519 to 28,600 and \$6.5 billion to \$11.1 billion, respectively, between 2005 and 2006, according to association figures.

"I think some of the first things you saw were companies raising deductibles, unwilling to write new business, and starting to get off of risks such as large frame condos," explains Smitty Harrison, executive director of the SCWHUA.

Some have cited the instability in the coastal insurance market as an argument for a national catastrophe policy. Hunter, for his part, does not support the idea. He calls it a nonstarter: no one from Iowa will ever vote to contribute to a fund to bail out coastal residents, and few major insurers have come out in support of a national policy, he says.

Instead, Hunter maintains, the Florida model should be expanded to create regional pools.

"I would do a multi-state cat [catastrophe] fund from Texas to Maine," he suggests. "And I would use the Florida approach on reinsurance because [private reinsurance] is way overpriced. That way, you get an even better spread than in Florida." — Aaron Hoover

## The End of an Era

*Florida says good-bye to the internal-pressure design option*

Florida builders are the first to face new hurricane protection codes likely to be in force soon in other coastal states. Sunshine State lawmakers this winter began requiring coastal builders to use impact-resistant glass or shutters on all windows and sliding glass doors. Before the change, builders also had the option of structurally reinforcing homes and condominiums but leaving openings unprotected.

The industry had anticipated the elimination of the so-called "internal pressure design option" for 2008. That's when it will be phased out of the International Building Code. Heavily advocated by insurers, the phaseout follows repeated occurrences of homes sustaining massive wind- and rain-caused internal and contents damage yet remaining intact following hurricanes. The goal is to reduce this damage.

Florida's early action, which applies on both the east and west coasts, has builders fuming about altering permit applications and contracts — in some cases raising prices unexpectedly for customers.

"You've basically taken that whole program and shoved it 18 months forward," notes John Wiseman, president of the Florida Home Builders Association, which has asked law-

makers to push the effective date from January to July of this year. "The industry can deal with that, but when it comes to individual contract and business decisions already made and you're changing that, it creates more uncertainty."

Whether or not the industry succeeds in delaying the law, west coast builders will likely feel the most dramatic effects, suggests Dave Olmstead, a member of the Florida Building Commission's Hurricane Research Advisory Committee and a senior officer at window- and door-maker PGT Industries.

Olmstead says about 85% of current homes on Florida's west coast and 35% of the homes on the east coast are built using the internal pressurization option. One reason for the difference: until the 2004 hurricanes, the west coast had tradi-



Are impact-resistant windows worth an estimated \$5,000 more to the cost of the average 2,200-square-foot home? Viewed from this perspective, the answer is decidedly yes.

FEMACYNTHIA HUNTER



FEMA/BOB EPSTEIN

Once the building is breached, the internal wind pressures can be severe enough to rip the roof off, as shown in this classic example: once Hurricane Andrew beat down the garage door, the truss roof didn't stand a chance.

tionally been viewed as less prone to hurricanes, Olmstead notes. There are currently about 300 housing starts monthly on Florida's west coast, according to PGT.

Wiseman estimates the new law will add about \$5,000 to the cost of the average 2,200-square-foot home, based on the \$300 to \$400 cost of 10 impact-resistant windows and one \$1,000 to \$1,500 impact-resistant sliding glass door.

That amount could be considerably lower if homeowners opt for basic plywood shutters, but higher-end electric roll-down shutters in some cases are even more expensive than impact-resistant glass.

For policymakers, the hope is that any added up-front cost will reduce the considerable cost of paying for post-storm interior damage — damage often made that much worse by the absence of workers to clean up and rebuild. Too, the massive housing shortage following Katrina made it clear that policymakers need to do what they can not

only to save homes but to keep them livable as well, Olmstead says.

"The idea of this law is to protect the homes against all that wind and rain so people still have a place to live," he explains.

Florida lawmakers also bulked up other hurricane protections. They removed a provision that allowed homeowners to replace up to 25% of their windows annually without using shutters or impact-resistant glass. For the first time, they required opening protection for sunrooms, stripping a provision that mandated it only for entryways to and from the rooms. And they expanded some high-wind zones to include more homes.

Olmstead predicts most Gulf and East Coast states are likely to follow Florida's lead in coming years.

"A lot of this was insurance driven, but it's being driven in a lot more states than Florida," he notes. "The Florida insurance industry puts the Florida Building Code into platinum standards, and everyone else has to catch up." — A.H.