

A TALE OF TWO STATES

Florida's Insurance Shortfalls and South Carolina's Insurance Success

Florida

The Citizen's Property Insurance Corporation and the Florida Hurricane Catastrophe Fund (FHCF) were originally designed to give Florida a safety net. Instead, Florida's bad policies led to the state becoming its own largest "provider" of both insurance and reinsurance, and put itself on the hook for billions in insurance shortfall by charging actuarially unsound rates.¹

Supports a government insurance arm that unfairly competes with the private sector. Allows the state to dramatically subsidize the rate of insurance, allows noncoastal and coastal residents to seek insurance from the state, and does not require individuals to demonstrate that coverage is unavailable in the private sector. These practices send the wrong message to homeowners that the risk of coastal living is not great and is not environmentally costly.

Failed to fund the state's mitigation program (My Safe Florida Home) in 2009, even after the state's Chief Financial Officer expressed the importance of the program to homes and to future cost savings for the State and the Legislature expressed bi-partisan support for mitigation funding.

Purposefully sets rates below the appropriate threshold, which results in the state covering the difference. This dangerous policy has only been slightly amended and thus has led to a tremendous program shortfall (for example, the reinsurance FHCF only has \$4.5 billion in assets to cover exposure that could total \$28 billion, and the state's primary insurer (Citizen's) only has \$16 billion in total liquidity to cover an exposure level of \$400 billion.) The shortfalls are made up by "assessments" on persons and entities not allowed to participate in Citizens, such as churches, charities, small businesses, and Floridians of modest means (such as renters with an auto policy).

Crowds out the private market and inappropriately limits the rates that private sector companies can charge for coverage—even though the private sector sets rates using risk models and actuarial experts.

South Carolina

The state run insurance arm, managed by the South Carolina Wind and Hail Underwriting Association (SCWHUA), provides more limited, hurricane centered insurance to coastal residents without crowding out the private sector. The result is a fiscally stable system which has attracted new private market competitors.²

Limits coverage to coastal areas and charges rates reflective of risk. Those that live closer to the shoreline (Zone 1) pay a 3% minimum deductible while those that live away from the shoreline pay a 2% minimum deductible. Further, the state only provides coverage to residents that have been unable to obtain wind and hail insurance in the private sector.

Remains committed to mitigation and integrates mitigation into the insurance and tax system. For example, homeowners receive tax credits for home safety inspections performed and for pre-disaster mitigation improvements to homes. Further, the program is means-tested and limited to high-risk, coastal areas.

Provides that "rates for policies issued by SCWHUA must be adequate and established at a level that allows the SCWHUA to operate as a self-sustaining mechanism."

The Department of Insurance encourages new insurance carriers to enter the market (13 new companies have been licensed recently to provide coastal insurance in the state)

Structure

Coverage

Mitigation

Rates

Private Sector

¹ See generally Florida Legislature's Office of Program Policy Analysis & Government Accountability Report # 4042 on Florida Hurricane Catastrophe Fund (last updated on Oct. 15, 2009); Florida Hurricane Catastrophe Fund 2007-2008 Annual Report; Florida Insurance Council News Release on Key Updates: Citizens Claims Paying Ability Bolstered by Pre-event Financing (June 10, 2009).

² See generally South Carolina Wind and Hail Underwriting Association 2009 Status Report (Feb. 1, 2010); Rates, Rules and Forms Manual of the South Carolina Wind and Hail Underwriting Association (February 2009 Edition).

