

REINSURANCE

Insurers struggle to stay covered

Homeowners' policy rates absorb impact

BY KATHY BUSHOUSE
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Much like the homeowners they insure, Florida's home insurers say they are being squeezed by the rising cost and inability to get the coverage they need to continue operating in this hurricane-weary state.

The problem is reinsurance, or insurance for insurance companies, something that normally doesn't adversely affect or concern homeowners.

But after two brutal storm seasons, these are far from normal times in the home insurance industry in Florida.

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Just as homeowners are hoping the Legislature can do something to stabilize the insurance market, the insurers want legislators to do something about the tight reinsurance market before the hurricane season starts June 1. For homeowners, the important thing insurers want you to remember is this: The price of your home policy is directly tied to their ability to get affordable reinsurance.

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Without that backstop, you're going to see a lot of these . . . companies having to stop doing business, just prior to the hurricane season," said William Stander, the Tallahassee-based regional manager for the Property Casualty Insurers Association of America.

"You don't have to be an actuary to figure that one out, that there are people [insurers] able to purchase reinsurance last year that won't be able to purchase it this year," state Insurance Commissioner Kevin McCarty said.

FROM BAD TO WORSE

Independent South Florida insurance agents say they're already having trouble getting private insurers to sell home policies for customers, and some policy renewals are coming with substantial rate increases. And the reinsurance dilemma for carriers is making a bad situa-

For insurers, price of taking on risk is on the rise

INSURANCE CONFUSED FROM FEAR

tion worse.

Alex Soto, president of insurance firm Miami Insurance Agency, said for the first time in his 24 years in business, he has clients that simply can't find any private insurer to write a windstorm policy for their homes.

Soto said one of his commercial clients was dropped by an insurer, after only a month with the company. The client got a cancellation notice and the entire premium returned. The reason, Soto said, was the carrier couldn't afford the risk.

Tom Lynch, president of Delray Beach-based Prudential Insurance, said he's also had problems placing clients with insurance companies. Smaller insurers — which in recent years have issued most of the new policies in South Florida — are more affected by the re-

insurance crunch, he said.

Before Hurricane Andrew in 1992, bigger companies "were all taking a fairly large percentage of the risk, and they were big enough to handle it," Lynch said.

Now, since the large home insurers have not sold new home policies in years, he's worried many small insurers would buckle under the weight of another costly hurricane season.

As the insurers struggle, consumers will continue to pay more in premiums. For instance, Florida Power & Light Co., a Boca Raton company that sells wind-only policies in coastal Florida, has asked state regulators two weeks ago for an average 81.4 percent increase to cover single-family home policies and for a 76.6 percent average increase for condo policies.

The company "needs to be able to cover our reinsurance costs," said Roger L. Desjardis,

chief executive officer for Florida Power & Light. "Some companies may not even be able to get it at all."

"The reinsurance costs are going to have undoubtedly a significant effect on the cost of homeowners' insurance."

A TIME OF CAUTION

For their part, insurers are more cautious about where they place their money, after sustaining billions in losses from the hurricanes, said John Andre, an analyst with rating agency A.M. Best.

"For this period right now, companies are being very, very careful," Andre said.

Some, however, question whether there's really a reinsurance crunch.

"The capacity is there," said Jim Massie, Florida counsel for the Reinsurance Association of America. "But it's much tighter than last year . . . and it's much more expensive than last year."

What is reinsurance?
Reinsurance is coverage insurance companies buy to help pay customer claims after a natural catastrophe.

Why does it matter to me?
Insurance companies pass the higher cost of reinsurance to consumers in the form of higher premiums. If the price of reinsurance goes up, that means home insurance prices increase.

What's the problem with reinsurance in Florida?
Here, insurance companies are trying to buy reinsurance, which is driving up the price and limiting availability. The Florida Legislature is considering a proposal that would allow home insurers easier access to coverage through the Florida Hurricane Catastrophe Fund to ease the reinsurance crunch.

INSIDE REINSURANCE

Earlier this month, insurance industry representatives told the Senate Banking and Insurance Committee that they were at a critical point going into next hurricane season. Some lobbied for changes to the Florida Hurricane Catastrophe Fund to allow smaller insurers to buy additional cov-

erage from the fund, which provides cheaper reinsurance than the private market. Others pushed for a one-year change to the fund that would allow insurers to tap into the fund should insured losses from a storm reach \$3 billion. But with the catastrophe fund projecting a \$1.5 billion

shortfall from the 2005 hurricane season and the strong possibility that virtually all Florida will have to chip in to replenish the fund, state Sen. Steve Geller, D-Hallandale Beach, said chairman of the Banking and Insurance Committee, said he questions the wisdom of allowing smaller insurers easier access to the state catastrophe fund.

"If we do not do this, these little companies that don't have the resources of the big companies — they will probably go out of business, and that would dump a lot of policies" into Citizens Property Insurance Corp., the state's "of last resort."

"Which is the correct answer? My guess is there isn't a correct answer," he said.

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