Idea Exchange Opening Note

Remember Orlando

What do you get when you corral Florida property insurance executives and policymakers in a room for an afternoon away from the TV cameras and pundits?

The answer is: consensus. Consensus on how to move the Florida property insurance market forward.

Florida Insurance Commissioner Kevin McCarty convened a symposium on the state's property insurance markets in Orlando. The participants included domestic insurer executives, an actuary, an academic, a consultant, reinsurance experts, several Citizens executives, the Florida Hurricane Catastrophe Fund's director, an agent, two regulators and a cat bond specialist.

Florida's problems are real. The state faces $55 billion in total cat exposure. The state cat fund can handle about $18 billion of that. The remaining exposure still dwarfs the exposure of the state with the next biggest exposure, which is Texas at $14 billion. Florida's insurance problems are, of course, driven in great part by its vulnerability to hurricanes. But Florida's insurance problems are not just about hurricanes. The state's property insurance system is being weakened by non-cat events as well, including out-of-control public adjusters, a rash of claims reopened from five years ago, and an explosion in sinkhole claims.

The exposure is too great for the current players and the state to handle. Prospects are dim for any national catastrophe plan that might help out.

Florida needs to find its own way out of its mess. Most agreed this means that the state must find ways to attract lots of new private capital and more private carriers and expertise into its marketplace to adequately insure its exposure.

To attract capital and expertise, it needs to do a number of things. It needs to show some stability in its regulatory and legislative environment. It needs to allow steady and incremental rate increases, and avoid dramatic spikes that tend to invite legislative intervention. It must show a true commitment to mitigation, which is the only real way to reduce storm losses in the long run.

Then, if the state manages to provide this sort of stable environment, it needs to be patient. It will still take time for carriers and those with capital to invest to trust the stability. When and if a carrier or investor comes to trust it, the state will have to wait again because attracting just one or two carriers will not be enough to make a major difference; it will take a number to adequately absorb the risk.

The apparent consensus among the participants was not necessarily surprising. Many of the same parties reached agreement on reforms earlier this year in legislation. That measure, however, was vetoed by Gov. Charlie Crist.

Crist will not be governor next year and McCarty could very well be out as state insurance commissioner. Thus the others, including the few state lawmakers in the audience who did not participate on panels but whose support is obviously critical, must carry the consensus forward.

Translating the consensus found in a meeting room in Orlando in October into state policy and law is easier said than done. It's a challenge because not all players with influence were at the Orlando meeting. Those missing included national insurers, reinsurers, trial lawyers, insurance adjusters, consumer representatives, home builders, real estate developers, home inspectors — and the next governor.

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