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Florida's Sucker Bet on Socialized Property Insurance?

By Robert F. Sanchez

The budget, casinos, and property insurance were interrelated hot-button topics during the Florida Legislature's 2009 session. As in other states with a constitutional mandate to balance the budget -- even during a recession -- lawmakers pondered a mix of spending cuts and tax hikes.

Yet one potential revenue source had lawmakers justifiably skittish. Gov. Charlie Crist had negotiated a deal letting the Seminole Tribe add Las Vegas-style games to its casino empire in exchange for a promise of millions of dollars a year for the state.

The Florida Supreme Court ruled that the deal required legislative approval. Many legislators were reluctant to oblige. Several explained that they didn't want to sully the state's reputation as a family-friendly destination by authorizing more gambling.

Ironically, though, some of the same legislators who vociferously oppose gambling have bet the state's fiscal future on a property insurance scheme that leaves Florida at risk of insolvency should a severe storm strike.

Result: The largest property insurer in Florida isn't Allstate or State Farm. It's Citizens Property Insurance, a state enterprise initially formed as "an insurer of last resort" for homeowners

purportedly unable to obtain coverage from traditional sources.

Citizens arguably became Florida's largest property insurer because state regulators wouldn't let competitors' rates rise enough to cover the risks. Several of the frustrated private insurers responded by announcing their withdrawal from Florida.

How this puts the state at risk of a fiscal meltdown is described in detail in a new study published by Florida's James Madison Institute and available on JMI's website, www.jamesmadison.org.

In *Restoring the Private Property-Insurance Market to Reduce Florida's Risk of Financial Insolvency*, the author -- JMI Adjunct Scholar and Competitive Enterprise Institute Senior Fellow Eli Lehrer -- shows that neither Citizens nor most of the Florida-based start-up insurers have the resources to cover the risks they've assumed.

Neither does Florida's catastrophe fund have enough to provide the kind of solid reinsurance that large private insurers routinely obtain to shield them from a mega catastrophe.

So what's the plan? If losses exceed available funds, go to Wall Street and borrow the rest -- hardly a realistic scenario in today's credit market. And how would those loans be repaid?

Through huge surcharges on every property- and auto-insurance policy.

The Atlantic hurricane season officially begins on June 1. Florida's strategy for coping is simple: Pray for a quiet season – or one in which all the storms veer toward Cuba or Belize. In Florida, property insurance is the ultimate faith-based initiative.

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