House, Senate pass competing insurance bills

TALLAHASSEE, Fla. – Jan. 18, 2007 – House leaders edged closer to common ground with the state Senate on Wednesday by passing a bill to cover more risk for property insurers in the event of a catastrophic hurricane, a plan they claimed could slash windstorm insurance rates by as much as 65 percent.

The proposal, one of a series passed by the full House, nonetheless met with mixed reviews in the Senate, where some members questioned whether it could actually deliver on its promises.

Both chambers passed competing property insurance legislation Wednesday, setting up negotiations on a final product that are expected to continue through the weekend.

Lawmakers spent much of the second day of their special session grappling with the issue of costly reinsurance, which private insurance companies buy to guard against massive losses but which also drives up rates for policyholders.

The new House plan, hammered out late Tuesday night by a contingent of Democratic and Republican members, appeared for the first time in a House council meeting Wednesday morning. It would expand the Florida Hurricane Catastrophe Fund to cover damages up to as much as $30 billion of losses in a single season. The state-backed “cat fund” currently kicks in after insurers’ season’s losses reach $6 billion, providing an additional $16 billion.

State fund costs considerably less

Insurers would have to pay for that additional $8 billion of coverage through the cat fund, at a cost of 10 cents for every dollar of reinsurance above the $22 billion mark, significantly cheaper than private reinsurance rates. Participating insurers would have to pass along 100 percent of the savings to policyholders, filing new rate requests as part of the process of applying for the additional state-backed insurance.

“Conceptually, I think it is an opportunity to create more capacity for State Farm in this marketplace,” State Farm Insurance lobbyist Mark Delegal told members of the House Policy and Budget Council.

Insurers would have to provide consumers with a minimum of 25 percent savings on windstorm insurance rates. Rep. Dick Kravitz, R-Jacksonville, said the plan could bring down windstorm rates by as much as 60 percent, and other negotiators of the plan predicted as much as 65 percent, citing a combination of input from the Office of Insurance Regulation, officers at the state cat fund and industry representatives.

Rates should fall at least 30 percent

Overall rate reductions for homeowner policies could exceed 30 percent, Kravitz said, though final numbers are still in the works.

Dave Foy, chief of staff for the state Office of Insurance Regulation, confirmed in an e-mail sent to the House Majority Office that rate savings of 33 percent to 38 percent would be a reasonable expectation.

The bill could bridge at least some of the divide between the House and Senate, which wants to create a state-backed “super reinsurance pool” for insurers. This superfund would cover insurers’ losses above $22 billion, the amount that includes the first $6 billion in damages covered by the industry and the additional $16 billion offered by the catastrophe fund. It was conceived with no specific funding source, and funding would not be secured until losses above $22 billion were incurred.

Both the House and Senate plans now include greater state participation at the high end of the damage scale. Earlier, House leaders were critical of the Senate plan, characterizing it as dangerous.

“I’m thrilled at the direction that they’re moving in,” said Senate Banking and Insurance Committee Chairman Bill Posey, R-Rockledge. “We’re coming closer together.”

However, Sen. Steven Geller, architect of the Senate plan, took issue with claims that the House plan could result in a rate rollback of as much as 60 percent or 65 percent on the wind portion of a policy.

The Senate plan offers the state backstop with no strings attached, yet windstorm policy savings from the Senate plan had been pegged at only 25 percent to 40 percent below current rates, he said.

There is “massive confusion,” he said, over how much savings each plan would offer.

Under the House plan, any losses exceeding the $30 billion covered by the pumped-up cat fund would revert to private insurers. The Senate superfund has no ceiling.

House, Senate differences remain

House Speaker Marco Rubio continued to balk at the “Geller plan” in the Senate on Wednesday, saying it was too risky to pass during the special session.

Another deal breaker for Rubio is any expansion of Citizens Property Insurance Corp., the quasigovernmental insurer of last resort that the speaker called “broken.” Rubio did not rule out expanding Citizens’ role in the insurance market, as the Senate has proposed, but objects to addressing it during the special session.

The House and Senate packages do provide rate relief for Citizens consumers by rolling back this month’s rate increase and canceling one planned for the future, which was mandated by a bill passed last legislative session.

Citizens customers would see no direct benefit from expanding the cat fund or creating the Senate’s super reinsurance fund, however, as Citizens is not paying for reinsurance now. Market forces suggest that if private rates fall, Citizens’ would follow suit.

Both the House and Senate plans have provisions requiring insurance companies writing other lines of insurance in Florida to also offer homeowners insurance here if they do so in other states. The move to prohibit “cherry-picking” of lucrative lines while avoiding riskier business was popular, but controversial. Opponents fear it could send even more insurers packing, or force up rates in other lines to make up for the higher risk of property coverage.

Gov. Charlie Crist lauded lawmakers on Wednesday while avoiding taking sides.

“What’s most important to me, and I’ve said it over and over again, is that we have significant rate reduction,” he said. “How we get there is not important to me. What is important to me is that we get there, and we get there as soon as we possibly can.”