

Property insurance

Insurance industry's excuses fall flat

It's no secret that Florida's property insurance industry is in trouble. So much trouble, in fact, that despite avoiding landfall of a major hurricane each of the last five years, Florida still saw more private insurers fail in the last 12 months than any other state in the union. A recent investigation showed one in three privately insured Floridians rely on an insurer that exhibits signs of financial risk. Some private insurers are so undercapitalized that they would be incapable of paying for even the most minor damage, let alone the catastrophic destruction caused in the wake of a major hurricane.

If you believe the noise coming from Tallahassee, echoed in the opinion columns of some of Florida's largest newspapers, you might be inclined to accept the industry explanation for this dire situation: sinkhole fraud.

Insurance fraud is wrong and a punishable crime, but it can hardly be blamed as the pre-eminent cause of the industrywide crisis. Last year, allegations of fraudulent claims accounted for less than 3 percent of the complaints brought to Florida's Division of Insurance Fraud. Similarly, convictions resulting from these fraudulent claims comprised only 2 percent of all insurance fraud convictions in the state.

Much more likely, the state's insurers are using the sinkhole issue as window dressing in an attempt to cover for the glaring misconduct it has failed to confront.

In reality, the lion's share of the blame for the industry's solvency issues falls squarely on its own shoulders. During the current five-year storm-free stretch, the state's insurers have neglected to build their capital reserves to levels that would enable them to withstand the next major disaster. Instead, insurers send as much as 86 cents on the premium dollar overseas to reinsurers who are not obligated to conform to the regulations that act to protect consumers. Florida's undercapitalized and overleveraged insurance companies are essentially slaves to these offshore reinsurers, who



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Workers fill a sinkhole in Temple Terrace that swallowed a Toyota Camry last year. The insurance industry blames false sinkhole claims in Florida for escalating homeowner's rates.

often charge five times the actuarial risk of loss simply because they can.

There is another dirty secret that the state's insurance companies don't want you to know. Despite all the self-pity, many Florida companies actually make sizable profits. Nearly every private insurer in the state has divided itself into several separate subsidiary companies that swap money in a veritable shell game to escape regulation.

According reporting by Paige St. John, between 2006 and 2008 Florida property insurers gave out more than \$149 million in executive bonuses, perks and dividends to their holding companies while increasing Floridians' rates by an average of 35 percent over the same period.

Despite these realities, there has been a clear

effort by Florida's insurance industry to build momentum for a bill (Senate Bill 408) sponsored by Sen. Garrett Richter, R-Naples, which, among other things, would make it easier to cancel policies, delay the full payment of legitimate claims, and shrink the window for filing hurricane and sinkhole claims.

Further, the bill would eliminate the requirement that companies even offer sinkhole coverage to Floridians — almost assuredly leading to the extinction of all such coverage in the state. In conjunction with this insurance wish list, the Legislature will certainly revisit its attempt to deregulate our insurance rates and let companies charge "whatever the market will bear."

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