

Republican Hurricane Season

The Atlantic hurricane season starts in less than two weeks, and Floridians might want to keep an even closer eye on the skies than usual. Not only has the state been spared a big storm for five consecutive years, but the politicians in Tallahassee just gambled that their socialized insurance industry can cover any potential losses if a Category 5 does make landfall. Floridians better hope their Sunshine State lives up to its name.

Governor Rick Scott achieved a small reform when he signed a law Tuesday that raises insurers' solvency requirements and works to curb abuses of sinkhole claims, among other things. That's all to the good, despite the cat-calls from Florida's media. Insurance fraud raises costs for all consumers. But the Republican risks hyperbole when his office calls the law "a significant step forward to making Florida more competitive and attracting new companies into the state."

If anything, private insurers continue to shrink their business in Florida because they can't compete with two taxpayer-backed behemoths: Citizens Property Insurance Corp., an insurer, and the Florida Hurricane Catastrophe Fund, a reinsurer known as the Cat Fund. Citizens's rates are set below private-market peers and insurers in the state are mandated to buy Cat Fund reinsurance—a kind of insurance for insurers.

As a result, Citizens writes far more new policies than any other private-market peer and the Cat Fund is the main reinsurance game in town. The latest data from Florida's Office of Insurance Regulation shows Citizens's market share in homeowner insurance

in hurricane prone Hernando County is now 60%; in Pasco, 45%; and in Miami-Dade, 45%. Three private insurers this week halted new underwriting in the state. That's no coincidence.

Florida's GOP hopes to get lucky for the sixth year in a row.

Meanwhile, both companies present ever-bigger risks to taxpayers. In the event of a catastrophic storm, Citizens has the legal right to impose a tax on both its policyholders and other Floridians, regardless of where they live and what type of insurance they have. The Cat Fund said Tuesday that it can afford to pay between \$18.3 billion and \$20.3 billion to policy holders in an emergency. But that assumes the fund can sell some \$11 billion of bonds in the storm's *aftermath*. Goldman Sachs puts that number closer to \$4 billion.

If Mr. Scott is serious about restoring competition to Florida's hurricane insurance market, he'll work to revive bills that would set Citizens's rates nearer to private-market rates and roll back the Cat Fund. This won't be an easy political sell. The most vocal opponent of the law signed Tuesday was Republican Senator Mike Fasano, from New Port Richey, who demonized that reform with populist rhetoric about higher rates. Republicans from the southern part of Florida are antireform for the same short-sighted political reason.

All of this speaks to the tough battle Governor Scott, a former businessman, has in front of him. No insurance market will be viable in the long term unless companies are allowed to estimate rates and price policies at market clearing levels. In the short term, that means Florida insurance rates have to rise. But better to fix the market now than to face a disaster when the big storm hits.