



Florida's SB 408 Benefits Homeowners and Carriers

September 1, 2011

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Florida's residential insurance law **SB 408** that took effect in May should bring much needed relief to homeowners who fear their property and casualty company might fail and to auditors who must offer opinions as to whether those insurers are financially fit to stay in business. Rules that allowed insurers to operate with the thinnest of financial cushions before toppling under the weight of oversized and unpredictable claims have changed for the better. So have the requirements for all types of claims, in particular the sinkhole claims that have done more than hurricanes to afflict property and casualty companies.

The law raises the minimum surplus requirement to \$15 million from the previous \$5 million for newly organized insurers. This should help eliminate many "going concerns" issues that auditors must address each year. With more money in the bank, fresh-faced Florida insurers can better weather unexpected calamities.

The extra capital should bolster the customers' faith that their new insurer will be around next year and the year after that. Stronger balance sheets also reduce skepticism among independent accountants and possibly save insurance companies time and money in convincing insurance regulators and auditors of their solvency.

The improved cushion also helps insurance companies when purchasing reinsurance to share the risks of potential exposure to claims. Stronger financial ratios and higher credit ratings give property & casualty companies more choices and better prices when in the market for reinsurance.

The law lifts all of Florida by requiring existing insurers to boost their financial cushions over the next 10 years to the levels of new companies today. The key will be how well an insurance company with that additional surplus manages that asset to grow its book of business and how capable existing carriers will be in securing the additional capital, be it either from investment, accumulated earnings or a combination of each.

The financial health of property & casualty companies should improve with needed reforms in the property claims process, especially sinkhole claims. They exploded from 2,360 in 2006 to 6,694 in 2010. For those years, claims totaled approximately \$1.4 billion. In response, state-backed Citizens Property Insurance Corp. announced in July plans to raise average premiums by 1,300 percent in South Florida and 2,100 percent in the Orlando area.

Claims and losses could decline with the new law. It provides a better definition of structural damage in a sinkhole claim, which should substantially reduce the potential for unwarranted claims.

Insurers also have a better handle on their exposure through two other reforms: a reduction in the time to make claims and cuts in compensation to public adjusters. The filing, or re-filing period, for hurricane or sinkhole claims shrinks from 5 years to 3 years from the date the incident was first identified. That alone should decrease losses and late payments for claims. With fewer claims “hanging out there,” management, auditors and actuaries can better determine ultimate losses, and therefore give more accurate and timely indications of which insurance carriers are troubled or potentially troubled.

The new law does not solve all the challenges of Florida’s home insurance system. That will take at least a few more legislative sessions. However, it does create a friendlier environment for insurers, which should provide for an infusion of fresh new surplus to the market. That, in turn, will reduce the strain on the insurance industry, regulators and consumers alike.

