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Florida lawmakers exploring flood insurance alternatives

Photos



Tim Pipes with his Riverview home. He says the home is built at the top of a high embankment and he doesn't understand why it's considered a major flood risk. He is considering selling his home if a land survey determines he has to pay high flood insurance rates. JIM REED/STAFF

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BY JOSH BOATWRIGHT and JAMES L. ROSICA
Tribune staff

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TALLAHASSEE — With few signs Congress will act swiftly to curb flood insurance increases affecting tens of thousands of Floridians, state lawmakers are exploring options outside the National Flood Insurance Program to protect homeowners in low-lying areas.

City leaders and Realtors have been calling for action, concerned about the impact that rates escalating five, ten or even twentyfold could have on people's ability to sell their properties and on property values. Homeowners facing steep increases have been complaining, too — people such as Tim Pipes, who recently learned the \$1,600 premium for his ranch home in Riverview will nearly quadruple over the next several years, overwhelming the modest retirement he'll get from the military.

Pipes' home sits on a high bank several feet above the Alafia River and has never come close to flooding, he said. Nevertheless, the risks of living so close to the water are driving up his rates and forcing tough choices.

"I'll walk away from my home before I pay these rates because it's not worth it," Pipes said.

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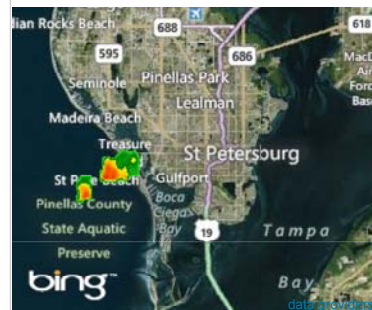
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Legislators have toyed with several Florida-based alternatives in recent weeks. Lawmakers have flirted with the idea of setting up a state-backed insurance company in the mold of troubled Citizens Property Insurance Corp.; but that gained no traction, given the problems associated with the state-run insurance company.

That leaves the hope of luring private insurers to offer flood coverage as an alternative to the national program. It's a dicey prospect, considering the federal government only got into the flood insurance business in the 1960s because private companies were unwilling to cover flooding.

A lot would have to change to make private flood coverage viable in Florida — or any state — including reducing state regulators' ability to manage rate increases, insurance industry officials and analysts say.

Even if that happens, there's no guarantee private policies would cost less for flood-prone properties than those offered through the federal program.

Besides, the federal program, which is the only model insurers have to go on, doesn't show a lot of promise.

"The problem with flood business is that the only thing to copy is the federal flood program," said Security First Insurance president Locke Burt, who testified at a recent hearing in Tallahassee. "I'm not sure I'd want to copy a program that's \$25 billion in the hole."

While only 20 percent of flood policies nationwide will see rates go up as part of the 2012 Biggert-Waters Act, Florida — and especially the Tampa Bay area — will be hit harder than most parts of the nation.

Homes built before communities entered the flood program and drew up floodplain maps in the early 1970s have received artificially low rates for decades; the federal government is eliminating those subsidies.

Pinellas County has the highest number of those older properties in the country, estimated at more than 50,000, including condos and businesses, while Hillsborough has nearly 22,000 single-family homes alone being effected.

"These outrageous rate increases are going to destroy communities across the state," said state Sen. Jeff Brandes, R-St. Petersburg. "Tampa Bay is ground zero for this flood insurance crisis."

Realtors on both sides of the bay have reported that sales of those older homes have plummeted over the past month because of a provision in the law that makes flood rates immediately jump to full risk rate when a property is sold.

State lawmakers were confronted with a dramatic example: a Florida coastal home bought in August 2012 that pays a yearly premium of \$500 will rise to \$4,500.

Florida is considered a "donor state" in the federal flood insurance program, with residents paying roughly \$4 in premiums for every \$1 paid in claims. That initially fueled speculation that there's money to be made in writing flood policies. Nobody really knows, though, because there's no history of private insurers offering flood policies by which to gauge.

No one truly wants a state-run insurance program, given what's happened with Citizens, created in 2002 to be the state's insurer of last resort for homeowners. But as more and more private insurers stopped writing policies in hurricane-prone Florida, Citizens became a go-to. Its coverage was underpriced, leaving it underfunded. Because of increasingly damaging storms over the past decade, Citizens has had to increase rates and premiums dramatically and shed thousands of policies to get into fiscal shape.

At a Florida Senate hearing this month about flood insurance premiums, Banking and Insurance Committee Chairman David Simmons, R-Altamonte Springs, suggested having to create a state flood insurance pool, though he later walked that back in front of reporters: "I said, tongue in cheek, the 'Citizens' solution."

That leaves the private market.

Simmons asked Burt whether there could be a private-market solution, given the needed flexibility from the state.

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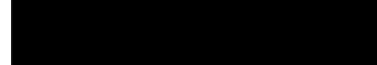
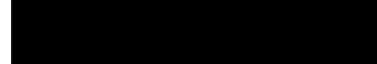
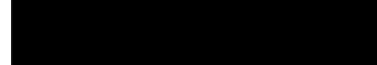
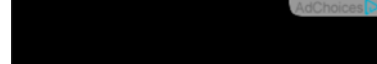
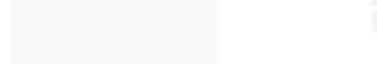
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“There are literally billions of dollars in the insurance capital market that are looking for new and different things to do,” said Burt, a former state senator from Ormond Beach.

Current conditions might make private insurers hesitant to get into flood insurance, though, he said.

“Their concern when they look at flood business is the political uncertainty at the federal level and the state level, the lack of rate flexibility ... those kinds of practical things,” Burt said.

In fact, some private insurers in Florida already insure for floods, but the coverage is limited to commercial buildings and high-value homes. It’s considered excess coverage; the national program has a claims cutoff of \$250,000 for structural damage and \$100,000 for contents.

There’s skepticism among insurers about the feasibility of offering standard flood coverage on the private market.

Many of the reasons private companies didn’t want to offer coverage back in 1968, the year the national program started, haven’t changed: Risk is concentrated in particular areas; risk-based premiums would be too high for customers, and the claims that would be generated by a single catastrophe could bankrupt a company.

“Unlike any other insurance, if one house floods, they all flood,” said Jake Holehouse of St. Petersburg-based Holehouse Insurance.

Widespread flooding from major storms, such as hurricanes Katrina and Sandy, were largely responsible for putting the national program into massive debt, even with a national pool of policyholders.

The insolvency of the program also demonstrates the problem with charging rates that don’t actually reflect risk, which the new law seeks to fix.

“You cannot have a private system, unless it turns out that the insurers are able to charge the rates that reflect the risk,” said Howard Kunreuther, co-director of the Wharton Center for Risk Management and Decision Processes at the University of Pennsylvania.

While Gov. Rick Scott and many leaders have argued Florida’s high rates aren’t justified because policyholders have paid four times as much in premiums as they’ve received in claims, that doesn’t necessarily mean an insurer — public or private — would assess the state as less-risky, Kunreuther said.

“The actuarial risk is the long-term risk. The fact you haven’t had that many claims over time is not the basis for any actuarial risk,” he said.

FEMA considers a host of factors in determining flood risk, such as community rainfall, topography, tidal surge, flood mitigation measures, building development, community maps and flood history.

Florida insurance officials would at least like to create guidelines allowing flood policies to be written.

Insurance is a heavily regulated industry, with caps on charges, so the state will need to rewrite its insurance rulebook before companies can even think about how to write flood-insurance policies.

Kevin McCarty, head of Florida’s Office of Insurance Regulation, said his staff is working on a set of guidelines for insurers already authorized to do business in Florida to request approval to write flood insurance.

“The guidelines will not only provide a framework for the approval of rates and forms for flood coverage but will also address financial requirements that must be met for insurers to write this new coverage,” McCarty said.

The guidelines could come out as early as this week.

“These guidelines will be designed to facilitate the writing of primary flood coverage in Florida by insurers with the demonstrated financial capacity to do so,” McCarty said.

Loosening regulations is a start, but affordability must be addressed first in either the existing federal program or a possible private option, Kunreuther said.

While Florida lawmakers aren't pursuing a state-backed option, they say they may need to do something if the federal government doesn't act and private insurers aren't willing to offer affordable flood insurance policies.

"If, in fact, we have a group of several hundred thousand policies and the [costs] are going to be outrageous, then we will have to do something to provide some assistance," said Simmons, the head of the state Senate's Banking and Insurance Committee.

"There would be a need to provide something equivalent to a last-ditch effort or last resort for homeowners who simply have unaffordable insurance premiums."

Rather than leaving rate subsidies in place, federal and state governments should offer low- and middle-income families vouchers to help offset the costs of raising the elevation of their homes or other preventive measures, Wharton School researchers have suggested.

Ultimately, the only thing that will truly lower risk, and costs is making homes in low-lying areas safer, Kunreuther said.

Such mitigation efforts are costly, though. In a 2011 report, researchers estimated it would cost about \$58,000 to raise the elevation of a 2,000-square-foot home.

Consumer advocate Birny Birnbaum, who testified at a U.S. Senate hearing last month on flood insurance, wants to see regulators require private insurers to include hazards such as wind and flood in standard homeowners policies.

Rates would be minimal in low-risk areas, high in risky places, but the larger pool of policyholders would make the insurer more viable in the face of a major disaster.

Plus, requiring companies to cover flood damage would create incentives for private insurers to work with government agencies and customers to make homes safer, said Birny Birnbaum, director of the Austin, Texas-based Center for Economic Justice.

Under the current system, insurers are prone to pass on storm damage claims to the federal flood program — and taxpayers — rather than cover it under the homeowners policies they write.

"It actually provides consumers with the product they expect, and it gives insurance companies more incentive to get involved in loss prevention and mitigation," said Birnbaum, the former chief economist for the Texas Department of Insurance.

Holehouse said he hopes Congress will move to delay rate hikes until there are programs to help homeowners raise up their homes — a move that could mean the difference between a couple hundred dollars or several thousand per in premiums per year. With the government shutdown crisis resolved, there's at least the possibility Congress may revisit flood insurance.

In the meantime, Pipes is trying to appeal his home's flood zone designation. But the rate increase has already pushed him to put his home up for sale.

"I love my home and I love my location, but I said I'm not going to pay these rates," he said.

jboatwright@tampatrib.com

(727) 215-1277

Twitter: @jboatwrightTBO

jrosica@tampatrib.com

(850) 765-0807

Twitter: @jlrosicaTBO