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Small insurers, state bet on weather
Regulators take chance firms can be solvent

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TALLAHASSEE — Rather than shut down insurers tottering from last year's hurricanes, Florida regulators are letting them grow with the riskiest policies in the state.

It's a gamble on the weather.

Florida homeowners are on the hook to pay if they lose. There's the promise of a healthier market and, maybe, competition to drive down rates if skies stay blue.

"So far so good this year, no storms out there," said Bill Newton, executive director of the Florida Consumer Action Network. "If that continues, then everyone is going to make money."

It's not the state's few national companies at risk, but their rivals: scores of small Florida-based companies that as a group write nearly half the home insurance here.

"We have greedy big companies. We need greedy little companies," Newton said.

Despite a minimum capital requirement of \$5 million, Florida has become a haven for what one insurance company president calls "friends-and-family companies" like his, Federated National.

The Lauderdale Lakes company was formed by taking policies from Florida's insurance high-risk, state-run insurance company.

President Richard Widdicombe sees opportunity for it to grow as big names like Allstate cut back.

First he needs time to recover from 2004. Financial analysts have dropped Federated National's stability rating to "weak" and then, at Widdicombe's request, withdrawn it entirely.

"We've just had the worst natural event in the history of insurance down here," he said. State regulations require property and casualty insurers to have the larger of \$5 million capital, or 10 percent of their liabilities. But 2004 storm losses emptied many of those accounts and parent companies and private investors have not put all of it back.

Financial records show at least five companies with thin capital, some under regulatory watch and others with assets inflated by future tax deductions and solvency ratings of "weak" and "marginal."

If companies fail, policyholders recover only losses up to \$300,000 through Florida's Insurance Guaranty Association. Homeowners across the state would pay the bill through assessments added to already rising premiums.

Regulators and industry officials contend Florida's insurance market emerged from 2004 strong and "viable," with the failure of only a single, already-struggling insurer, American Superior.

"Despite five hurricanes and three tropical storms in less than a year's time, no major insurance carriers have elected to pull out of the Florida market," said Sam Miller of the Florida Insurance Council.

NOT A PERFECT PICTURE

House Insurance Chairman Dennis Ross said he heard different rumblings when he met recently with insurance adjusters in Jacksonville.

"They're concerned the takeout companies aren't solvent," Ross said, referring to small companies that got their start by taking over policies from Citizens.

Among those in trouble is Florida's fifth largest insurance holding company, Poe Financial Group. All three of the Tampa-based company's insurance subsidiaries, Atlantic Preferred, Florida Preferred and Southern Family, have ceased allowing their books to be viewed by financial rating companies.

Two, Florida Preferred and Southern Family, acknowledge in annual reports that at the end of 2004 they were under regulatory review for inadequate capital.

Poe Senior Vice President David Gough failed to return repeated phone calls.

Insurance regulation Director Kevin McCarty said he is concerned with Poe's decision to no longer secure a financial rating, but "comfortable they are a solvent company."

"I know it's created problems for them, but I know their management team is working very diligently to address these issues," McCarty said.

PAPER ASSETS

Quarterly finance reports show the Poe companies counting on money that wasn't there yet. Anticipated tax benefits — federal deductions such as charitable donations that can be claimed later — account for more than half the \$17 million surplus Atlantic Preferred declared in March, its most recent quarter. The company said it planned to collect \$7.3 million of those benefits later this year.

More than three-fourths of Florida Preferred's March surplus is in future tax benefits. They equaled almost the entire surplus for Southern Family. Without the tax credits, Florida Preferred and Southern Family would not meet minimum capital requirements.

Though Poe Holdings added more than \$45 million to its companies, A.M. Best in March

dropped ratings for Southern Family and Atlantic Preferred to "weak."

It cited "continued uncertainty regarding the financial condition and overall strategic direction" of the still-growing companies.

The Florida Office of Insurance Regulation would not say how many companies fell out of compliance with solvency requirements after the hurricanes, or remain there still.

Legislators have made such records confidential, hidden even to policyholders.

NO QUESTIONS ASKED

Citizens Property Insurance, the state-created insurer for homeowners who can't find coverage in the private market, encourages companies to assume policies, and offers hefty bonuses if they keep them at least three years. Southern Family, for instance, has picked up \$17 million in such bonuses.

The state's desire to get policies out of Citizens has jumpstarted nearly a dozen insurers, with 436,000 policies in the last three years, and a "prospect list" of 20 more companies expected to grab business after hurricane season ends this fall.

Until recently, Citizens' board of governors grilled those companies on their finances.

In March, before a big round of policy transfers to private companies, Office of Insurance Regulation Deputy General Counsel Belinda Miller told the board its scrutiny was misplaced.

"It's our responsibility to make sure the company has enough money to pay claims," she said. "I think the board's responsibility is to make sure the takeout is good for Citizens."
