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New assessment will hit every Florida homeowner

MIAMI -- Nov. 10, 2005 -- The pain in the pocketbook from Florida's hurricane season keeps coming: Citizens Property Insurance officials announced Wednesday that they will ask their board to raise Citizens' rates an average of 15.9 percent beginning in February, followed by an average increase of 48.4 percent later in the year.

The pain will be shared by all homeowners across the state, as the company estimates it will need to impose an 11 percent assessment next year to recover from this year's storms. That's on top of a 6.8 percent assessment that will be collected starting in January to restore Citizens' surplus after the 2004 storms.

The new estimated assessment could add up to \$330 for a homeowner with a \$3,000 premium, regardless of the insurer.

The reason for the giant insurance bills: Citizens suffered \$4.3 billion in losses this year, but collected only \$3 billion in premiums, said John Forney of Raymond James, Citizens' financial advisor.

He told the Senate Banking and Insurance Committee that Citizens, the state-run insurer of last resort, has the largest exposure of any insurance company doing business in Florida, "so of course it suffered significant damage in the last eight storms."

Two crippling hurricane seasons have spent Citizens' reserves, he said, leaving it nowhere to go but its customer base and the customers of other insurers. By law, once Citizens has spent its cash reserves, it must replace them for the next hurricane season by imposing an assessment on all Florida property insurance policies.

DOMINO EFFECT

The news gets worse, said Robert Ricker, Citizens' chief executive: The tightening insurance market and shortage of capital for companies to back up their losses will prompt many private insurers to drop policies and send thousands of additional homeowners to Citizens.

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Housing Market Indicators

Florida existing home sales (September 2005) [+ 33 %](#)

National existing home sales (September 2005) [+ 7.2 %](#)

National housing starts (September 2005): [+ 3.4 %](#)

Florida consumer confidence: [78](#)

National consumer confidence: [85](#)

U.S. new home sales: [+ 2.1 %](#)

Median price of an existing [\\$247,800](#)

Median price of an existing [\\$212,000](#)

Median price of a new-home (U.S.) [\\$215,700](#)

The situation puts Citizens in an untenable position -- unable to thin its ranks at the same time that it is increasing its exposure and potential for running out of cash.

"We have to accept any policy," Ricker told the committee. "We have more concentration than any private company would tolerate or be expected to write."

Citizens insures nearly 800,000 homes and condominiums, with half of its policies in South Florida.

The litany of sobering news prompted several senators to complain that the assessments wouldn't be necessary if Citizens rates hadn't been kept artificially low. Sen. Bill Posey, a Rockledge Republican, asked Ricker how the company distinguishes between how much of the cost increases will be borne by Citizens policyholders and how much by the rest of the state.

"Your policyholders, and everybody else's policyholders, are keeping you afloat," he said. "The question is: Where do you strike a balance? The future scares the heck out of me."

Ricker said an analysis, required by law, determined that the rate hikes were necessary but because they were "very, very, very large," the company chose to phase in the rate increase in two parts.

The first rate increase will take effect before it is approved, under a provision in state law, and the second increase will take longer to take effect because it must go through a public-hearing process and rigorous review by regulators.

"We expect a lot of discussion and a lot of potential delay as far as getting it approved," Ricker said.

REVENUE PROPOSAL

The assessment could be offset by the Legislature if Chief Financial Officer Tom Gallagher gets his way.

Gallagher said Monday that he will ask the Legislature to use tax revenue collected by the state from sales of plywood, tarps, generators and other hurricane recovery items to offset the rate hike.

Senate President Tom Lee and Gov. Jeb Bush said they were open to the idea but preferred to find a broader solution that reduces the state's dependence on Citizens.

"If we're going to have another season of hurricanes, we'll expect there will be less private insurance rather than more, more Citizens policyholders rather than less," Bush said. "This could become a very vicious cycle, so a more comprehensive approach may be part of the answer."

30-year fixed rate mortgage:
[6.36 %](#)

Pending home sale index
[128.8](#)

Housing market index:
[67](#)

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Gallagher tried to persuade lawmakers to use hurricane-related tax revenue to cover Citizens' shortfall last year, but legislators did not allocate the funds.

State Sen. Ron Klein, a Delray Beach Democrat, introduced legislation Wednesday to make it more difficult for insurers to drop policies after a hurricane. His proposal includes a "loyalty clause" that requires an insurer to hold on to a policy for three years if a homeowner has paid his annual premiums on time.

Klein said his office received more than 100 calls from consumers who were afraid to file a claim after Hurricane Wilma because they feared that their policies would be canceled.

"We have reached the point where homeowners can no longer experience the security that comes from having their property covered," Klein said. "Something is wrong with this system when you get to this stage."

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