



In this issue:

- > Center Project Studies
Equity of Subsidies
page 1
- > Homebuyers Value
Stronger Building Codes,
Study Finds *page 1*
- > Proposed Federal Legisla-
tion Seeks to Address
Catastrophes and Home-
owners Insurance
page 2
- > Florida Legislature Consid-
ers Insurance Bills
page 2

Storm Center Brief

Center Project Studies Equity of Subsidies

When Florida's state-sponsored insurance and reinsurance entities incur a deficit from a major hurricane or series of hurricanes, the state's citizens are assessed fees through their insurance policies to make up the difference. But are these "post-loss" assessment procedures equitable or are there subsidies that benefit policyholders in some counties to the detriment of policyholders in other counties?

A study being conducted by Storm Risk Management Center staff and affiliated faculty is seeking the answer to this question through empirical analysis to determine whether subsidies exist within the post-loss assessment structure of the Florida property insurance market and the extent of the subsidies.

The amount that is paid under the existing assessment structure is being compared to the amount that would be paid under an assessment structure that is based more on actual hurricane risk to determine if a subsidy exists in the current assessment structure.

Two primary scenarios were constructed with various combinations of deficits for Citizens Property Insurance Corporation (Citizens), the Florida Hurricane Catastrophe Fund (FHCF), and the Florida Insurance Guaranty Association (FIGA) to analyze the subsidy issue.

While the study is not yet complete, initial findings indicate that under a small storm scenario, private insurer policyholders (homeowners not insured by Citizens) in 18 counties would receive subsidies and policyholders in 49 counties would pay subsidies. In that same scenario, Citizens policyholders in nine counties would receive subsidies and policyholders in 58 counties would pay subsidies.

A scenario involving a 1-in-100 year storm resulted in the same counties paying and receiving subsidies. However the size of the subsidies increased. In addition, the FHCF would have to collect a six percent assessment for 23 years to make up its deficit under this scenario.

Full results will be available soon on the Center's Web site at www.stormrisk.org.

Save the Date!
Storm Center to Host
May 15 Symposium
More details at:
www.stormrisk.org



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Homebuyers Value Stronger Building Codes, Study Finds

New research sponsored by the Storm Risk Management Center has found that based on selling prices homebuyers in Miami-Dade County place a premium on homes built to a stricter building code.

The study addressed the issue by measuring the capitalization of the area's South Florida Building Code into house prices. The code was passed in 1994 in response to Hurricane Andrew, which caused widespread damage in southeast Florida two years earlier.

Results for individual zones studied show that the stricter building code has a positive effect on selling price. The greatest effect is seen in the coastal

zone, which has the greatest risk exposure. Selling prices for homes built under the stricter code in the coastal zone were about 10.4 percent higher than prices for comparable homes built under the older, less strict code.

The premium for safety is shown to decrease as the hurricane risk exposure decreases. For geographical areas with less risk exposure, there is less capitalization of the stricter building code into house prices.

The final report entitled "The Capitalization of Stricter Building Codes in Miami, Florida, House Prices" can be found at www.stormrisk.org.

Proposed Federal Legislation Seeks to Address Catastrophes and Homeowners Insurance

At press time, four bills had been introduced in Congress that seek to address issues related to homeowners insurance and disasters:

[S505: A bill to establish a natural catastrophe risks consortium and a national homeowners insurance stabilization program](#)

From the Web site of the bill's sponsor, Sen. Bill Nelson, D-FL: "A top priority will be dealing with the shortfall in what's called the Florida Hurricane Catastrophe Fund, which pays claims when insurance companies can't. Nelson's bill would allow the federal government to step in with loans to the state's CAT Fund. More specifically, Nelson's legislation would allow multiple states to join together to help pay for each others' disaster costs. That's in addition to a provision that would provide them with low-interest federal loans when damages exceed the resources of a state-run catastrophe fund."

[HR83: Homeowners Insurance Protection Act 2009](#)

Sponsored by Rep. Virginia Brown-Waite, R-FL, this bill seeks "to establish a program to provide reinsurance for State natural catastrophe insurance programs to help the United States better prepare for and protect its citizens against the ravages of natural catastrophes, to encourage and promote mitigation and prevention for, and recovery and rebuilding from such catastrophes, and to better assist in the financial recovery from such catastrophes."

[HR998: To amend the Internal Revenue Code of 1986 to provide for the creation of disaster protection](#)

Rep. Thomas Rooney, R-FL, is the primary sponsor of this bill that was written "to amend the Internal Revenue Code of 1986 to provide for the creation of disaster protection funds by property and casualty insurance companies for the payment of policyholders' claims arising from future catastrophic events."

[HR1264: To amend the National Flood Insurance Act of 1968 to provide for the national flood insurance program to make available multiperil coverage for damage resulting from windstorms or floods, and for other purposes.](#)

From the Web site of the bill's sponsor, Rep. Gene Taylor, D-MS: "Throughout coastal America, property insurance companies have dramatically increased premiums on existing policies, cancelled existing policies, or have stopped writing new policies altogether for our nation's home and business owners. The Multiple Peril Insurance Act will solve this problem. It will also stimulate the economy throughout coastal America, particularly here in the Katrina area of the nation."

Florida Legislature Considers Insurance Bills

Of several state bills filed this session related to homeowners insurance, the below may be of interest:

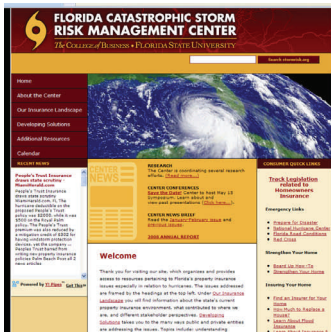
[HB1157 Property Insurance](#)

Sponsored by Rep. Ellen Bogdanoff, R-Fort Lauderdale, this bill proposes to shut down the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation to create the Florida Hurricane Protection Program. This program would become the

insurer for all hurricane risk in the state and return all other insured risks back to private insurers.

[HB 1171 Residential Property Insurance](#)

Sponsored by Rep. Bill Proctor, R-St. Augustine, this legislation would allow insurers to sell residential property policies that are not subject to assessments by the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation.



Learn more about and track pending federal and Florida legislation related to homeowners insurance at:
www.stormrisk.org