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# With hurricane season on horizon, act now to reduce costs

By

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Florida has a unique opportunity to lower its risk of hurricane taxes and to make it more likely that the Florida Hurricane Catastrophe Fund will be able to pay its claims in a timely manner.

In order to take advantage of this opportunity, the State Board of Administration (SBA), whose members are the governor, chief financial officer and the attorney general, should act quickly and authorize its professional staff to explore the global capital and reinsurance markets to determine whether Florida can economically move some of its hurricane risk out of the state into global financial markets.

As fiduciaries for the state, the SBA should direct the Cat Fund to undertake this prudent action. The SBA will still control the final decision and determine whether this transaction makes economic sense to Florida.

Global investors, such as pension funds and hedge funds, learned during the great recession a few years ago that they should invest a small percentage of their assets in opportunities which do not correlate with the economy. Weather catastrophes fit that criterion, and investors have increasingly sought opportunities in that sector.

As the world's largest global risk for hurricanes, Florida is ground zero for these investors. And, because of the oversupply of capital, the cost of that capital has decreased tremendously in the past several years. For example, rates online for reinsurance are now lower than they were in 1994.

The Cat Fund has a statutory obligation to provide up to $17 billion of coverage to Florida's homeowners insurance companies. To the extent that the Cat Fund does not have sufficient cash to pay these claims, the Fund attempts to obtain the rest from the bond market.

In three of the past five years, the Cat Fund's financial advisors have indicated that the Cat Fund would not have the bonding capacity to make up the difference. Accordingly, many in the insurance and business community, including the Florida Chamber of Commerce, have recommended "right-sizing" the Cat Fund over time to a statutory limit of $14 billion, or $3 billion less than currently required.

Any bonds issued by the Cat Fund are paid back annually over a period of up to 30 years by assessing premiums, commonly called hurricane taxes, on almost all property and casualty policies, with a few exceptions. This means automobile policyholders, all businesses, charities, religious institutions, local governments, and school boards are paying hurricane taxes to subsidize the homeowners' insurance market. None of these groups benefit from the Cat Fund, which strictly reinsures homeowners' insurance claims.

To the extent that global investors are willing to take hurricane risk from Florida, the potential for hurricane taxes will be decreased. If that can be done economically, two important state goals will be achieved: The Cat Fund will be better prepared to pay its claims in a timely manner, and potential hurricane taxes on Florida's citizens, businesses, and school boards will be reduced.

In other words, this is a win-win for Florida.

The Florida Chamber of Commerce encourages the State Board of Administration to authorize staff to explore the global financial markets to transfer risk out of the state's borders. The time is now, while reinsurance rates are at an all-time low, and the unpredictability of a looming hurricane season waits.

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