



CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

ALEX SINK

March 12, 2009

The Honorable Pat Patterson, Chairman
Florida House of Representatives
Insurance, Business and Financial Affairs Committee
Room 308, House Office Building
Tallahassee, Florida 32399

The Honorable Garrett Richter, Chairman
Florida Senate
Banking and Insurance Committee
Room 320, Knott Building
Tallahassee, Florida 32399

Dear Chairman Patterson and Chairman Richter:

The State of Florida's hurricane risk represents one of the largest catastrophic risk exposures in the world. With the security and economic strength of our state at stake, it is vital that we approach our hurricane risk with responsible solutions that help protect all Floridians. As Florida's Chief Financial Officer, I have met with financial and insurance experts from around the world to obtain insights into Florida's risk exposure, and to learn how we can improve our state's property insurance marketplace.

There is no doubt that we face significant challenges, but there are also common-sense and gradual reforms available to the Legislature that will begin reducing our hurricane risk exposure and protect Florida's homeowners. At the same time, we recognize that Florida property owners cannot bear large, one-time premium shocks, such as we experienced in 2006. Below, I have outlined four suggestions that responsibly address the hurricane risk faced by our state. If we take these smart, incremental steps, we will reduce our risk and make our state better protected and less financially exposed when a major storm hits.

1. **Reduce Risk of Property Damage with My Safe Florida Home** - To truly address long-term risk, we need to focus on risk reduction, and help as many Floridians harden their homes as possible. Since its establishment in 2006, the My Safe Florida Home Program has helped over 400,000 Floridians have their homes inspected for hurricane safety. These inspections have resulted in reduced rates, and new jobs. We should continue the work of My Safe Florida Home, by transferring into the FY 2009-2010 Budget the estimated \$20 million remaining in the program, instead of allowing it to sunset this year. Your committees should also discuss the allocation between grants and inspections.
2. **Reduce Uncertainty of Bonding by Lowering Cat Fund Exposure** – In these challenging times for financial markets, the Cat Fund coverage level of \$28 billion is unrealistic and irresponsible. I urge the Florida Legislature to work this session to reduce the risk exposure of the Cat Fund by gradually phasing out the TICL layer over a series of years. By reducing the Cat Fund’s exposure, the Legislature can make progress in ensuring that the state is in the best position to meet its financial obligations, and ultimately be able to pay Floridians’ claims in the event of a storm. Under almost any circumstances, Floridians will be paying significant assessments for as long as 30 years into the future after just *one* major storm event – which leaves little flexibility for coverage with any future storms.
3. **Establish Florida’s Reinsurance Program in the Fall, Not the Spring** – The timing of when our state determines the amount of coverage in the Cat Fund is costing us money. This is why I urge the Legislature to empower the Florida Cabinet, a statutorily-created entity, or a committee of Legislators with the ability to set coverage levels in the Cat Fund. Currently, we are not able to take advantage of varying conditions in the reinsurance market, leaving insurers only a few weeks before hurricane season begins on June 1 to go shopping in the reinsurance market. The state should be able to shop early in the fall in order to take advantage of a broader range of possible markets, rather than wait until the last minute when options will be much more limited.
4. **Gradually Return Citizens Back to Its Role as “Insurer of Last Resort”** – Currently Citizens policy holders are being subsidized by all Florida homeowners, and some Citizens policy rates are actuarially unsound by as much as 40%. I encourage the Legislature to seriously consider the recommendations from the Citizens Task Force, especially: (1) the recommendation to create a glide path that would implement actuarially sound rates in specified increments and (2) the recommendation to allow no *new* development seaward of the 30-year-erosion projection line or in the Coastal Barrier Resources System designated areas to be insured by Citizens.

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To repeat, I understand that Floridians cannot afford shocks to their homeowners' insurance rates. These suggestions advocate for gradual solutions that are consumer-friendly and will decrease Florida's financial exposure to hurricanes. Now is the time for us to act together in the long term interest of all Floridians.

Until Florida establishes a long term, strategic vision for addressing hurricane risk, our state will be overexposed and Floridians will be forced to pay the price in the event of a major storm. I hope to work with my colleagues on the Cabinet and members of the Legislature in a constructive and bipartisan way on these challenges in the coming months.

Sincerely,

A handwritten signature in black ink that reads "Alex Sink". The signature is written in a cursive, flowing style.

Alex Sink

AS/kkr

cc: The Honorable Charlie Crist, Governor
The Honorable Bill McCollum, Attorney General
The Honorable Charlie Bronson, Commissioner of Agriculture
The Honorable Jeff Atwater, President, Florida Senate
The Honorable Larry Cretul, Speaker, Florida House of Representatives