

# Actuary: Wind rates 50 percent too high

BY ANN HENSON

Citizen Staff

The county-hired actuary on Tuesday told state insurance regulators that Monroe windstorm rates are nearly twice as high as they should be.

The actuary, Allan Schwartz, president of the New Jersey-based AIS Risk Consultants Inc., told officials at a hearing on Citizens Property Insurance Corp.'s proposed increase, that Monroe windstorm rates are not based on actuarial data, but on private-market figures.

Rather than the proposed windstorm base rate of \$24.40 per \$1,000 in coverage for Monroe County, Schwartz said the base rate be cut by as much as half, or \$12.20, which is the rate before additional increases and deductions are taken for each individual home.

Schwartz said rates are based on three components: expenses, losses and profits. "[Citizens] increased the provision for losses over the original filing, increased the provision for profit and lowered their provision for expenses," he said. The only reason Citizens reduced its expense provision is because Insurance Commissioner Kevin McCarty, who oversees the Office of Insurance Regulation, ordered them to do so.

"They came up with an indicated number and worked backward to get what they wanted," Schwartz said.

The state insurance advocate, Steve Burgess, said the question should be, "how much of a decrease should there be for Monroe County?"

He said McCarty understood the issues and elements specific to the county. "As I understood his directive, he wanted a filing that addressed those issues and elements specific to Monroe County. I don't think that's what we've seen."

He pointed to the preponderance of metal roofs in the Keys and their effectiveness in preventing hurricane damage.

"Yet this [characteristic] isn't picked up by the models used by Citizens. If it's not allowed as a discount, then it should be picked up as a loss reduction factor, but it's not," he said.

Citizens officials said they would not share the information from the private models they used.

Tim Volpe, an attorney the county hired, said the law requires the state and the state consumer advocate to have access to all factors and functions used, including the models.

After Schwartz's presentation, Citizens General Counsel Perry Cone said the corporation wanted to read the written transcript of the meeting before answering the charges.

"This is the first we're hearing of these criticisms," Cone said. "But we do disagree with much that has been stated."

Susanna Murphy, executive vice president for Citizens, said the company is not the bad guy, it's the hurricanes.

"If not for Citizens, 1.2 million people would not have coverage," she said. "Citizens is part of the solution."

In closing comments, Murphy pledged that Citizens will work with state insurance regulators to "re-examine all elements of the filing, and if we made a mistake we want to fix it."

The corporation used its presentation time to hear from its actuaries and computer modeling companies, which described what they do. They talked of weight factors, relativity rates and other jargon from the insurance industry with the summary that "models are very sophisticated estimates of costs that could happen," according to Kay Cleary, an actuary for Citizens.

They also talked about modeling the different territories by zip code, and said that Monroe and Miami-Dade counties are grouped together when home construction is considered, even though several people brought up the fact that Monroe has more stringent building standards.

Sara Earle, a senior vice president of MSB, which created one of the modeling programs, said individual components and characteristics of the home, materials and tradesmen figure into replacement costs.

"Based on the vendors [and] providers of data from lumber yards, wage rates for union workers are 18 to 23 percent below the U.S. average for labor," she said, prompting laughter among the contrary audience, which at one point included more than 100 people.

More than 40 residents testified during the session. Among them was retired Key West Fire Chief Billy Wardlow, who said the fire department suffers from employee turnover and has resorted to recruiting firefighters from Miami.

"We had resignation letters from a few of these guys. One reason was windstorm [insurance] and the cost of living," he said.

Key West Police Chief Bill Mauldin said his officers have all but given up on the possibility of purchasing a home.

"My police officers don't make that much money, but it's not only the price of homes, but the price of rent that will go up significantly," he said. "My officers are going to leave here."

Monroe County Housing Authority Executive Director Manny Castillo said his agency

has decided to self-insure its largest property because wind insurance is increasing by 350 percent.

“That’s about \$155 per unit per month increase,” he said. “We cannot do that, there’s no economical way to do it.”

Bill Loewy, founding president of Habitat for Humanity of the Lower Keys, described Habitat’s shutter program, which it completed through a \$1 million federal grant.

“We did 600 houses, and when it was over we had them inspected and Citizens rebated 20 percent of the premiums based on the improvements,” he said. “Something’s wrong when you give us 20 percent back then quadruple the next year.”

Joanie Nelson called Citizens’ calculations a “mumbo jumbo of numbers.”

Chris Stone gave an emotional plea, asking the panel to stop the increases.

“I will have to leave here,” she said, wiping tears as she spoke. “My rates went up by 50 percent over last year,” she said. “I’ve been here for 29 years.”

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