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Florida Examines Higher Insurance Deductibles

By JOSEPH B. TREASTER

MIAMI, Sept. 15 - Twelve years ago when Hurricane Andrew pummeled South Florida, 11 small insurance companies went out of business and the giants in home insurance, State Farm and Allstate, were staggered.

But industry analysts say that is not going to happen this year, even though not one, but two, hurricanes have torn up thousands of houses and businesses across the state and a third, Hurricane Ivan, was expected to affect the Florida Panhandle late Wednesday or early Thursday.

The insurance companies are expected to do fine, industry experts said, because the insurers, with the approval of Florida officials, have cut back on hurricane coverage, shifting much of the initial cost of repairs and reconstruction to the people who suffered the damage.

The insurers argued that they could not stay in business without such measures. But now Gov. Jeb Bush and Tom Gallagher, the head of the state's Department of Financial Services, are suggesting that the companies have gone too far.

The governor and Mr. Gallagher are focusing on sharply increased deductibles that force homeowners to pay thousands of dollars for repairs before their insurance kicks in.

Mr. Bush, with the support of Mr. Gallagher, is considering calling a special session of the Legislature to review the higher deductibles and other issues arising from the barrage of hurricanes.

Economists say the deductibles will probably deepen an anticipated slump resulting from the hurricanes. But the slowdown is expected to be brief as federal assistance and billions in insurance payments flow into Florida.

To offset the impact of the deductibles, J. Antonio Villamil, the chairman of Governor Bush's council of economic advisers, said Wednesday that he has recommended that the Legislature consider dipping into surplus state funds. One approach, he said, would be to give everyone with unpaid insurance losses a payment of $500 or so. Mr. Villamil said he was also recommending that state construction projects be accelerated.

"With Ivan now making landfall, there is going to be a tremendous short-term impact on Florida," Mr. Villamil said. "This makes a special session of the Legislature very likely. And it would cover all these issues."

When hurricane warnings go up, instead of the standard $500 deductible in use across the country, a much higher mandatory deductible becomes effective for most homes in Florida and most other parts of the Atlantic Seaboard and the coast along the Gulf of Mexico. Changes in deductibles in Florida will probably lead to similar shifts for insurers and tens of millions of customers throughout the region, insurance experts said.

In Florida, the mandatory deductible for homes valued at more than $100,000 is 2 percent; it is 5 percent for homes insured for more than $250,000. The standard $500 deductible remains unchanged for homes valued at less than $100,000.

With a 2 percent deductible on a $200,000 home, the owner pays for the first $4,000 in damages.

That is expensive enough when just one hurricane has hit. But now, with the arrival of Hurricane Ivan, some homeowners may face three sets of deductibles.

As state law stands now, the higher deductibles can be applied to a single home for each of the storms so that the owner of a $200,000 home could wind up having to pay as much as $12,000 for repairs for three hurricanes before collecting a dime from an insurance company.

"We want to get rid of that multiple deductible," Mr. Gallagher said in an interview on Wednesday. "Many consumers don't have the money to handle that. There should be one deductible per season."

Mr. Gallagher also wants to replace the high mandatory deductible with a more flexible system. As a minimum, he would impose a $1,000 deductible for most homes. But he would also permit people to choose a range of higher deductibles intended to lower premiums.

One way or another, though, the insurance industry says that customers are going to have to pay up for coverage. "You can't reduce the deductible without increasing the rate," said Roger Morris, a spokesman for the Property Casualty Insurers Association of America. "That's how we've kept rates down, by raising the deductible."

Rates have more than doubled in Florida since Hurricane Andrew, but the industry says that without the deductibles they would have had to rise much higher.

A spokesman for Mr. Gallagher, Justin Glover, said that more than 130 homeowners had complained about the high deductibles recently as overwhelmed insurance company adjusters have been making their way through the damage of the first two storms and personally delivering the bad news to customers.

In the town of Frostproof, in the heart of Florida's citrus region, the home of Steve Stallons, an electrical engineer at an orange juice processing plant, and his wife, Pattie, a sales representative for a skin care company, suffered roof damage from both Hurricane Charley on Aug. 13 and Hurricane Frances on Sept. 5.

An adjuster for the Florida Farm Bureau Insurance Company told the Stallons, they said, that the damage from Hurricane Charley would cost about $20,000 to repair. Then, when Hurricane Frances came along, moving slowly and delivering huge amounts of rain, water poured through the damaged roof, collapsing the ceilings in four rooms and adding another $16,500 or so in costs.

The Stallons had insured their house for $132,400 and had a $500 deductible for everything except hurricanes. For hurricanes their deductible was 2 percent of the insured amount, or $2,648. Under current Florida law they will have double that amount, or $5,296, deducted from their insurance claim.

Mrs. Stallons said that did not seem reasonable to her. "This was one giant event," she said. "Charley did the initial damage. If it wasn't for that damage, the other storm would not have made a difference. It would have been just like a bad rainstorm."

In gaining the support of state officials to place more of the costs of hurricanes on the shoulders of customers, the insurance companies have argued that unless they were able to make drastic changes after their heavy losses from Hurricane Andrew, they would either have to stop doing business in Florida or raise prices to crippling levels.

One solution was the higher deductibles. The idea started in Florida and spread to other states, including Alabama and Louisiana, which now appear to be squarely in the sights of Hurricane Ivan.

"The deductibles were a way of helping spread the risk around, sharing it somewhat," Mr. Morris said, referring to both insurance companies and their customers. "It's a vital part of the whole equation. How do you provide insurance in these high- risk areas?"

As Mr. Gallagher sees it, one hurricane deductible is enough, no matter how many storms hit the state in a season. "I believe it is fundamentally unfair for consumers to pay multiple hurricane deductions," he said.

Because of higher deductibles and other measures, the losses to the insurance companies from the three storms are expected to be significantly less than in Hurricane Andrew. In today's dollars, Hurricane Andrew inflicted about $35 billion in total damage.

Some estimates of damage from just the first two hurricanes run as high as $40 billion.

For Hurricane Andrew, insurers paid about $20 billion in today's dollars. The highest estimates for the costs to insurers from the first two hurricanes peak at about $17 billion and some analysts said they thought that the insurers would ultimately pay less.