

## Florida Insurance

When it comes to Florida property insurance, political realities in Tallahassee are clashing head on with traditional industry standards of fiscal responsibility. The homeowner is caught in the middle. The political reality is that elected officials, responding to residents' complaints and concerns about the state's multi-billion-dollar claim exposure, want to keep rates in check and reduce the size of the state insurer of last resort, Citizens Property Insurance Corp. But in doing so, the state has been pushing some of these new insurers to write far more policies relative to their surplus than is considered safe by traditional property insurers. Florida's Office of Insurance Regulation has approved more than a dozen new insurers to take about 400,000 policies out of Citizens this year. Until recently, takeout companies that received state incentive loans were also required to bring in at least \$2 in premiums for every \$1 of surplus, the pot of money insurers build to pay claims. The message: Write as many policies as you can. But in the property insurance business, a rule of thumb for financial stability is that companies should have about 90 cents to \$1 in premiums for each \$1 held in surplus. That means insurers who meet Florida's much higher ratio are automatically considered much riskier by industry standards and major rating agencies. "Those insurers are assuming more risk relative to the premiums they write, not to mention they're operating in a very volatile environment such as Florida," said Robert Hartwig, president and chief economist of the Insurance Information Institute, a trade association in New York City. "It's interesting the state has such a rule, but not all that surprising. If the companies had a ratio of 1-to-1, they would not be able to depopulate Citizens as much." Jack Nicholson, Florida's catastrophe fund senior adviser, who runs the loan program, said that the idea behind requiring smaller companies that got state loans to write a lot more premiums was to quickly bring new private capital into Florida. He said in hindsight, lawmakers and insurance experts realized they hadn't considered all the implications. "We were like, wait a minute, that's aggressive. That might be too aggressive," Nicholson said. Louisiana, another state eager to attract new insurers, requires more than double what Florida requires new insurers to keep on hand to pay claims. "Florida's more desperate," Hartwig said. "Offloading policies into startup companies is of greater importance there." The upshot is that of the 14 insurers approved to take policies out of Citizens in 2008, only one has been rated by A.M. Best, the gold standard in insurance ratings, and that rating was "weak." That means homeowners trying to research the stability of takeout companies bidding for their business find themselves trying to sort through competing ratings from lesser-known rating services. Some homeowners are opting to stay with Citizens. Hartwig said he might do the same if he were in a Floridian's shoes. "If you're concerned, you might as well stay with Citizens because at least you know Citizens will be able to effectively tax everybody for your claims," he said. "You may be paying more than with a takeout company. But it may buy you some peace of mind." American Integrity Insurance Co., Tampa Takeout policies: 22,563 (2008)\*, 108,729 (2007) Majority owner is Dallas real estate developer and investor James E. Sowell, who also owns Sergeant's Pet Care Products and a home health company. American Integrity's president and 22 percent owner is Robert C. Ritchie, who has two decades of insurance experience, including American Modern Insurance Group.

American Integrity received a \$7-million Florida incentive loan from the state in June 2007. The company was rejected for an incentive grant in Louisiana in May after failing to meet that state's capital requirement. The company and its affiliates donated \$42,500 to Florida candidates and PACs in 2007-2008. Argus Fire & Casualty Insurance Co., Miami Gardens Takeout policies: 10,105 (2008), 11,622 (2005) Argus assumed its first takeouts of Citizens' policies in 2005, when it qualified for a state bonus now worth \$2.4-million. Argus is a wholly owned subsidiary of United Automobile Insurance Co., owned by the Parrillo family. United Auto insures drivers with blemished records or poor credit ratings in 12 states. Among Argus' assets is a 35-foot Donzi speedboat. Argus, incorporated in 1994, is the only 2008 takeout company to be rated by A.M. Best, receiving a C- (weak) rating. Argus has the highest complaint ratio (share of closed complaints compared to market share) of the takeout insurers, according to data compiled by the National Association of Insurance

Commissioners. Avatar Property & Casualty, Tampa Takeout policies: 11,623 (2008) Avatar is the latest insurance play involving Dr. Kiran Patel, who made \$200-million on the sale of WellCare HMO in 2002. Other founders include Sandip Patel (no relation to Kiran), WellCare's former counsel and a real estate developer (Orion Communities) who recently dropped plans for a Ritz-Carlton in Tampa. Avatar's president and controlling investor is Hitesh Adhia, a CPA, fund manager and former financial accountant with Florida Farm Bureau Insurance Cos. Avatar was started with a \$10-million loan from its parent company, Avatar Partners, a limited partnership controlled by Adhia. The company's first takeouts took place in June. Edison Insurance Co., St. Petersburg Takeout policies: 1,901 (2008) Edison's president and chief executive, David M. Howard, was president and chief executive of Insurance Management Solutions Group, a spinoff of St. Petersburg's Bankers Insurance, which was sold to Fiserv Inc. in 2003. Howard was an executive with Bankers Insurance in 1995 when it hired private investigators to spy on Florida's insurance regulator, Kevin McCarty, after it lost a state contract. Edison's chairman, Gary V. Trippe, has run an insurance agency in Fort Myers since 1981. Since forming in 2005, the company has given \$13,800 to Florida insurance PACs. Edison was funded with \$10-million from managers and investors, with no shareholder having more than a 10 percent interest. Federated National Insurance Co., Lauderdale Lakes Takeout policies: 15,000 (requested 2009), 13,814 (2004) Owned by publicly traded 21st Century Holding Co., of which Federated president Michael H. Braun is chief executive. 21st Century was sued by shareholders in March for allegedly inflating its 2007 earnings estimates. Federated was fined by Florida's insurance regulators in 2001 and twice in 2005, including a \$10,000 fine for failure to acknowledge claims in a timely fashion. Federated has postponed its 2008 takeout of 15,000 policies until January 2009. Florida Peninsula Insurance Co., Boca Raton Takeout policies: 48,217 (2008), 45,980 (2007), 9,974 (2006), 75,556 (2005) Florida Peninsula received a \$25-million loan from the state in 2007. Aleritas Capital of Overland Park, Kan., loaned the company an additional \$20-million to meet Florida's matching requirement, with private investors contributing \$5-million. Company president Roger Desjardon was previously president and chief executive of Prudential Property & Casualty Co.; other major shareholders include Paul Adkins of Boca Raton (17 percent) and Gary A. Cantor of Ocean Ridge (15.6 percent). Florida Peninsula, in business for four years, had the second-highest complaint ratio of the takeout insurers, according to data from the National Association of Insurance Commissioners. Since forming in 2005, the company has given \$47,600 to Florida political campaigns. Homeowners Choice Property & Casualty Inc., Clearwater Takeout policies: 81,298 (2008), 13,702 (2007) Homeowners Choice began operations in July 2007, raising about \$12-million in a private placement offering. The company went public in July 2008, netting about \$10-million toward its surplus. Homeowners' directors include Tampa attorney Martin Traber, Clearwater developer Gregory Politis, and Clearwater developer and investor Paresh Patel; all three also are directors of NorthStar Bank in Tampa. Company president Francis McCahill has worked in insurance for 38 years, including 12 years managing risk for Bristol-Myers Squibb Corp., Norton Simon and Harris Corp. Homewise Preferred Insurance Co., Tampa Takeout policies: 19,507 (2008), 30,474 (2007), 31,654 (2006) Homewise assumed its first takeouts in 2006, targeting homeowners previously insured by bankrupt Poe Financial Group.

It has now expanded into Texas, Louisiana and South Carolina. President Dale Hammond has 38 years of experience with insurers, including Unitrin and First Floridian (Travelers). The insurer received \$8-million in capital in 2008 from parent Homewise Holdings Inc., which is controlled by HBK Capital Management in Dallas. HBK calls itself one of the largest hedge fund managers in the world. Four HBK managers, including managing director William E. Rose, are Homewise directors. Landmark One Insurance, Miami Takeout policies: 15,619 (2008), 8,822 (2007) Landmark One was formed in 2007 as a sister company of Northern Capital Insurance so both companies could qualify for extra reinsurance from the Florida Hurricane Catastrophe Fund. Landmark was funded with \$9-million from Northern Capital Inc., parent company of both insurers. The two companies share the same executive team, which includes majority owners Alexander Anthony and Albert Fernandez, former partners in a 22-year-old Miami insurance agency. Chief operating officer Juan Carlos Miguelez was previously director of Florida's Insurance Commissioner's office in South Florida. Landmark intends to focus exclusively on takeouts and has state approval to take up to 50,000 policies from

Citizens. Magnolia Insurance Co., Key Biscayne Takeout policies: 116,055 (2008) In 2008, its first year in operation, Magnolia has been approved to assume the biggest chunk of Citizens' policies. Magnolia is owned by Henry James Irl, who started the company with a \$23.8-million loan from a subsidiary of Allianz Risk of Switzerland. Irl's failure to pay thousands of dollars in personal bills has led to court judgments against him in Florida and in his former home state of New Jersey. In one case, the judge ordered Irl's wages to be garnished to recover more than \$36,000 owed to Chase Bank. Magnolia has hired call-center operator CGI Group to handle administrative, bill and claims issues.

Northern Capital Insurance, Miami Takeout policies: 14,656 (2008) Northern Capital, affiliate of Landmark One, began writing policies in 2006, with its first takeouts from Citizens in 2008. The insurer received \$8-million from its parent, Northern Capital Inc., in 2007. Wayne Fletcher, president of both Northern Capital and Landmark One, was previously chief underwriting officer for Senior Citizens Mutual Insurance Co. The combined companies have contributed \$39,500 to Florida political campaigns and PACs over the past two years.

Southern Oak Insurance, Jacksonville Takeout policies: 25,367 (2008), 29,428 (2007), 23,542 (2006), 24,017 (2005) Southern Oak's president and majority shareholder, Tony Loughman, and director Ron Natherson previously worked at Citizens Property Insurance. Director Stephen J. Pajcic served in the Florida House from the mid 1970s to the '80s and was the Democratic nominee for governor in 1986. Pajcic and his legal firm have contributed \$1.6-million to Florida political candidates since 1996. Southern Oak received a bonus of \$1.75-million in 2008 for about 38,000 policies assumed from Citizens in 2005-2006.

Sunshine State Insurance Co., Jacksonville Takeout policies: 27,107 (2008) Sunshine State, formed in 1997, added \$10.4-million to its surplus in June. President and chief executive John Rogan worked at CGU Insurance Co. in Maitland and CIGNA. Sunshine merged with another Florida insurer, QualSure Insurance Co., in 2005. Other directors include Tal Piccione, who founded and runs U.S. Re, a large reinsurance brokerage firm in New York. Sunshine also insures homes in South Carolina.

United Property & Casualty Insurance Co., St. Petersburg Takeout policies: 14,110 (2008), 23,178 (2005), 40,295 (2004) Formed in 1999, it received a \$20-million incentive loan from the state in 2006. The company went public this fall when it merged with a Connecticut-based shell company, raising \$25-million for the original shareholders. President and chief executive Donald J. Cronin had been a vice president at operations of United Agents Insurance Co. of Louisiana. Directors include Bill Hood, retired founder of Special Data Processing in Palm Harbor; and St. Petersburg residents Kent Whittemore, an attorney; pathologist Kern Davis; and Mark Berset, owner of insurance agency Comegys.\* Ask the company if it uses captive or contract agents. If the agents are on contract and work for a number of insurers, what kind of priority will they give your claim?

- When you call the company, is it answered by a call center? How long do you have to wait to reach a real person?
- What kind of discount will the insurer offer on your premium if you do a lot of mitigation or strengthening of your home?
- Look at the quarterly financial statement to see where the company gets its reinsurance. You want to see a number of reinsurers, in addition to the state-mandated purchase from the Florida CAT fund. The public financial documents do not specify how the added coverage is distributed among reinsurers.
- Remember: If you do nothing, your policy will automatically be moved to the takeout insurer. You have 30 days to respond to the private company's notification letter if you wish to remain with Citizens.