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Florida AG Says Insurers 'Overreacting' to Climate-Change Threat

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FORT LAUDERDALE, Fla. October 17 (BestWire) — When it comes to culprits sowing discord in his state's property insurance markets, Florida's top cop has fingered a prime suspect: an "overreaction" to the threat posed by global climate change.

While not disputing the science that projects long-term warming trends, state Attorney General Bill McCollum told members of the International Association of Insurance Supervisors he was skeptical of models that interpolate such trends to justify vastly greater risk premiums in the here and now. Insurers that have been seeking major rate increases in coastal insurance markets, or otherwise abandoning the coast altogether, are jumping the gun, McCollum argued.

"I believe there has been...a greater concern about the immediacy of disaster than needs to be, or should be," McCollum said in a keynote address to the IAIS' 14th annual meeting, convened this year in Fort Lauderdale. "As a result of that, some planning on the part of the insurance industry and insurance supervisors and regulators may be overreacting, and in the future could overreact, in expectation of something that isn't that immediate, isn't going to happen that quickly."

In support of his position, McCollum cited the work of climatologist James O'Brien, director of Florida State University's Center for Ocean-Atmospheric Prediction Studies, who parted with other forecasters in projecting that 2007 would not be an especially active season for Atlantic storm activity. While the number of named storms has been above average this season, the number of hurricanes so far has been slightly below average. Hurricane season officially runs through Nov. 30.

The attorney general also pointed to an historical analogue in the state's citrus market, noting that growers once operated in the northern part of the state before a series of freezes in the late 1800s drove them to central Florida and more recent freezes have driven them all south of Orlando.

"The reality is that you still could be growing citrus products north in our state but the risk is greater and the potential for loss, every so often, is going to occur," McCollum said. "We all react to what is occurring at the moment, and the fears that we have are built in, particularly, to how we protect our economic security."

A former Republican congressman, McCollum had been cosponsor with former Rep. Rick Lazio, R-N.Y., of 1999's Homeowners' Insurance Availability Act, which proposed a federal reinsurance facility for natural disaster risks. He noted recent congressional efforts to address the catastrophe issue either by allowing the National Flood Insurance Program to sell windstorm coverage, as proposed in the House-passed Flood Insurance Reform and Modernization Act, or by creating a federal pool for state-run insurance programs and low-interest loans to state catastrophe funds, as suggested by the Homeowners Defense Act.

"I don't think that either of these proposals at the United States government federal level are the answer, but they are a response and they could provide...an answer to this problem if they were enacted," McCollum said. "I personally would like to see other mechanisms in place to spread risk and allow the reinsurance market globally to be priced at a level that would allow insurance rates to come down in our state for primary insurance."

Without such a change, McCollum suggested Florida's \$100 billion private insurance market could soon become completely socialized, a process he suggested was well underway with recent expansions of the Florida Hurricane Catastrophe Fund and the state-controlled Citizens Property Insurance Corp.

"If we're the 10th largest insurance market, and there is no need for private windstorm insurance in Florida any longer, that's going to affect the insurance markets of the world in terms of what's out there and the products that are offered," McCollum said.

McCollum's comments came as Florida Insurance Commissioner Kevin McCarty has been investigating,

both within the state and in his role as chairman of the National Association of Insurance Commissioners' Property and Casualty Committee, catastrophe modeling firms' introduction of "near-term" windstorm models that project significant increased chances of landfalling hurricanes in Florida, the Gulf Coast and Southeast relative to the frequencies that would have been predicted using hurricane frequencies from 1900 to 2005 (BestWire, Oct. 1, 2007).

This week, McCarty subpoenaed Allstate Insurance Group to provide information about its relationships with risk-modeling companies, insurance rating organizations and insurance trade associations (BestWire, Oct. 17, 2007).

Evan Mills, staff scientist with the U.S. Department of Energy's Lawrence Berkeley National Laboratory, said Florida officials were right to try to gauge the comparative effectiveness and accuracy of various risk-modeling approaches, but wrong to suggest that insurers have in any way overreacted to the threats climate change presents. If anything, Mills told BestWire, the industry still hasn't done nearly enough.

"Looking at this year as a quiet year and thus saying therefore we need to ask questions about climate models just reflects a misunderstanding of the difference between climate and weather," Mills said. "We expect climate change to bring more volatility and more variability, so we'll actually see maybe as many quiet years as active years."

Moreover, Mills said, while the Atlantic basin may have had a relatively benign season thus far, on a global basis, 2007 has been a very active year, with a number of landfalling Category 5 storms.

"I think the last concern anyone should have is that we are moving too fast," Mills said.

(By R.J. Lehmann, Washington bureau manager: raymond.lehmann@ambest.com) BN-NJ-10-17-2007
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