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When Insurers Stop Writing Insurance

*Insurers Will Not Write a New Policy
When a Hurricane is Barreling Down on Florida*

A Florida Insurance Council
White Paper



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FOREWORD

Generally speaking, if a company offers homeowner's automobile or boat insurance, it is available on a year-round basis to applicants who meet underwriting guidelines. But just as a company would not issue a fire policy on a structure already burning, the insurer will not write a new hurricane policy when a hurricane is barreling down on Florida.

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Suspending Issuance of New Coverage

There are two ways insurance companies determine when to temporarily suspend issuing new coverage:

1. When the National Hurricane Center issues a tropical storm or hurricane watch or warning.
2. When a tropical storm or hurricane enters a company's "storm box."

A storm box is literally a box drawn on a map around a large geographical area. Years ago, companies placed the entire state of Florida inside a box stretching from the Atlantic Ocean to the Gulf of Mexico. That meant that companies would stop writing policies as soon as a storm entered the area within the box.

An obvious shortcoming of this option is that a storm entering one end of the boxed-in area would cause issuance of new policies to cease in the complete opposite end of the box drawn around the state. For example, a storm entering the box east of Key West, would cause not only issuance of policies to be suspended in the southeastern part of Florida, but also as far to the north and west as Pensacola.

That's why most companies now rely upon the National Hurricane Center's issuance of a tropical storm or hurricane watch and they suspend writing only in those areas covered by the watch. The watch areas are generally smaller geographical areas, and more precisely cover areas that are most likely to be affected by a storm.

Exception To The Rule

One major exception to this rule is the state-run Citizens Property Insurance Corporation. Citizens, the state's insurer of last resort, is now the largest hurricane insurer in the state and when a hurricane or tropical storm threatens any part of Florida, it suspends writing throughout the state. Citizens officials have cited the unpredictability of hurricanes and the likelihood that tornadoes could be spawn hundreds of miles away from the area of major impact.

Here is the Citizens policy:

"No application for new, or endorsement for increased coverage may be bound, written, or issued, or monies received, regardless of effective date, when a Tropical Storm or Hurricane Watch or Warning has been issued by the National Weather Service for any part of the State of Florida."

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Reporters and consumers should contact Citizens or access the Citizens Internet site: <http://www.citizensfla.com/> to determine when Citizens has suspended new writings and when it has resumed them.

These suspension policies are absolutely necessary to halt the practice by some who only want to purchase insurance when facing an immediate threat, leaving insurers not with the possibility of a claim, but with the distinct likelihood of a loss.

Insurance doesn't work that way. It is a benefit that offers people protection against an unforeseen loss of property. It is an agreement between a company, which collects a premium to assume risk for a loss and cover that loss if it occurs, and the policyholder, who no longer shoulders the risk.

When a company suspends binding privileges it only affects those people who don't already have insurance. It prevents the boat owner who hasn't had insurance on their vessel from buying a policy at the last minute, a homeowner or business owner with no mortgage (lenders usually require insurance) from buying when a hurricane is bearing down on their region and a motorist without coverage from successfully scrambling to secure it.

There can be delays in real estate closings when availability of coverage is suspended. This is unfortunate, but usually only for a couple of days, unless there has been a major hurricane landfall, and then the delay could be longer.

Real estate agents can try to expedite closings when a major hurricane is heading toward an area, allowing the transaction to be completed and insurance put in place before the storm.

Yet even in these rare instances when real estate closings are delayed the property is still insured. If it is a new home, it is still covered by the "builder's risk insurance." A previously-owned home still is insured by the current owner.

Suspending New Coverage For Automobiles and Boats

After eight hurricanes in the 2004 and 2005 hurricane seasons caused some \$37 billion in insured losses, many private insurers have found it necessary to reduce the number of policies they write. Many of these private companies are no longer writing any new homeowner's policies or they are writing only in limited areas.

Private market boat and auto insurers generally are writing new business throughout Florida. They too, suspend new writings when there is a pending hurricane or tropical storm. Most of these companies tie their decisions to suspend writing to the areas covered by a watch or warning. Other companies suspend statewide.

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Reporters and consumers should contact agents and other representatives of private insurers to determine if new coverage has been suspended.

Flood Insurance Not Effective for 30 Days After Application

Flood insurance is necessary to cover storm surge damage and other flooding, which is not insurable under homeowner's policies, either from Citizens Property Insurance Corporation or private companies. The National Flood Insurance Program (NFIP) issues this coverage, usually through private companies and private insurance agents.

There is an automatic 30-day waiting period between completion of the application and the effective date of the coverage, in most circumstances. The NFIP does not suspend accepting applications when a storm approaches, but the coverage would not be effective for 30 days.

New flood coverage would be available if the application had been submitted earlier and the 30-day waiting period expired with the storm out there and on the way. The 30-day waiting period is waved if the coverage is required under a real estate closing, so a closing squeezed in before suspension of the basic homeowner's insurance could conceivably include flood coverage.

The Florida Insurance Council is the state's largest not-for-profit insurance association, representing 40 insurer groups and 226 companies that write \$25 billion annually in premium in all lines of insurance.