



Are Florida Homeowners Paying More For Less? *Study Cites Price Regulation as the Major Reason*

WASHINGTON- February 9, 2011 - Price regulation of property and casualty insurance in Florida has been a failure, according to a new study released by the American Consumer Institute. The study shows that Florida insurance prices were 30% above the national average just 10-15 years ago, but today they stand at 90% above the national average, despite the state having the strictest price regulation policies in the country. How can this be?

The study, *The Regulatory Death Spiral -- Why Price Regulation of Homeowners Insurance Means Consumers Pay More*, details how price regulation in Florida has resulted in unintended consequences that have created shortages for homeowners looking for insurance, as artificially low prices have pushed the healthiest and most stable insurers out of state, particularly away from the coast, while leaving somewhat smaller, generally undercapitalized and riskier firms to shoulder major catastrophic storms. In Florida, this policy failure has led to the creation of a government-run insurer and reinsurer that has grown to become the largest insurer in the state, but its operations are financed not by capital reserves, but by debt.

In short, price regulation has led to a high cost market, where policyholder surplus has dwindled and insolvencies have become increasingly prevalent. If consumers are not paid for their claims, then what is the purpose of insurance; and if price regulation contributes to increased insolvency, then what is the purpose of regulation?

The study finds that, by regulating price, state regulators have altered the mix of firms that serve these markets, increasing risks and costs, eventually leaving consumers to pay more for insurance, but getting less in return – exactly the opposite of what policymakers intended.

The paper calls for ending price regulation, encouraging price flexibility and attracting capital back into the state, including sharp reductions in Citizens and the state reinsurance fund. The paper also suggests steps to reform related policies to reduce fraud and curb industry costs – all of which would help reduce consumer prices.

Visit www.aciflorida.org/florida-surplus-final.pdf to download the full study.

About The American Consumer Institute Center for Citizen Research

The American Consumer Institute Center for Citizen Research is a 501(c)(3) nonprofit educational and research institute. The Institute focuses on economic policy issues that affect society as a whole, and seeks to be a better and more reasoned voice for consumers, by using economic tools and principles to show that markets work best for the benefit for consumers. For a copy of the Florida study, please visit our Florida website at www.aciflorida.org; and for more information about the institute and our other research issues, please visit www.theamericanconsumer.org.