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2. What is the on-going cost of non-optimal human capital performance?

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HURRICANE HELP

The *Business Journal's* Hurricane Guide is specifically designed to be a resource local business leaders can refer to as they make plans for the 2009 hurricane sea-

son. Our guide's insurance information, important contact details and fill-in-the-blank checklists cover the essentials of preparation. Use them, stay safe and keep your business secure in the storm.

Citizens Property Insurance Corp. raises rates to align with market

BY OSCAR PEDRO MUSIBAY

One of insurance broker Gary Reshefsky's homeowner clients recently decided to go without windstorm coverage after Citizens Property Insurance Corp. raised rates by \$9,000 a year. He could do that because he has no mortgage on his \$1 million home.



Reshefsky

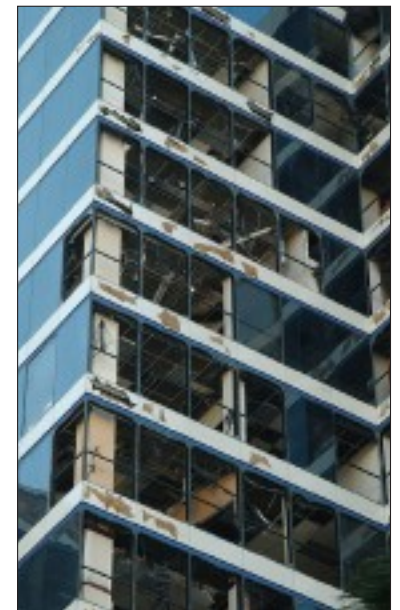
But, rates are likely to rise for the 350,000 homeowners affected by Citizens' efforts to underwrite to current replacement values. That's because state-backed Citizens cancelled policies and since January has been requiring new appraisals prior to bringing policyholders back. The action is meant to tie home values more closely with current replacement value.



Bainbridge

Some tenants in commercial buildings also are foregoing windstorm insurance because the coverage is too expensive and the deductibles are too large. But, rates have generally stabilized since the spike of 2005 because there is plenty of reinsurance and the offshore commercial insurance market is very competitive, said Gayle Bainbridge, a partner in Miami-based Global Risk, which specializes in commercial coverage.

She said tenants in newer buildings are also getting a leg up on those in older buildings. "In any building that is up to or surpasses the 2002 building code, tenants can get cover-



FILE PHOTO

In 2004 and 2005, a handful of storms caused billions of dollars in damage.

age that tenants in older buildings can't get," she explained. "And, they pay cheaper rates."

Policy cancellations are just one change being made to decrease the state's financial exposure in the case of a hurricane.

Another change allows Citizens to raise rates by up to 10 percent next year on individual policyholders and 10 percent annually after that until their rates are actuarially sound. Gov. Charlie Crist signed that in late May.

"They are now doing what insurance companies do — underwriting," Reshefsky said, referring to Citizens. "It's good."

Citizens efforts to align its policies closer to market forces are a step in the right direction, but massive, multibillion-dollar gaps still exist in both Citizens reserves and the state's catastrophe fund, which provides reinsurance, industry experts say.

The state has been preparing for a once-in-100-years storm, which would deplete its reserves. But, a few smaller storms hitting within the same cycle, like what happened in 2004 and 2005, could do the same in short order, Katherine Scott Webb, a partner at law firm Colodny Fass Talenfeld Karlinsky & Abate and a lobbyist for the Florida Property & Casualty Association.

In 2004-05, a handful of storms, including

Florida Office of Insurance Regulation

Web sites: www.floir.com and www.fldfs.com

Address: 200 E. Gaines St., Tallahassee 32399

Phone: (850) 413-3100

Consumer Hotline: (800) 342-2762

Citizens Property Insurance Corp.

Web site: www.citizensfla.org

Address: 101 N. Monroe St., Tallahassee 32301

Phone: (866) 411-2742

Florida Surplus Lines Service Office

Web site: www.fslso.com

Address: 1441 MacLay Commerce Drive, Tallahassee 32312

Phone: (800) 562-4496

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Professor predicts 6 to 8 hurricanes

A North Carolina State University forecaster is predicting a "near normal" hurricane season in 2009, with perhaps six to eight hurricanes forming in the Atlantic basin and a 45 percent chance that one of those storms will hit the Southeastern U.S. coast.

The 2009 cycle will be slightly above the 50 year average, but "in line" with storm profiles from the past 20 years, NCSU marine science professor Dr. Lian Xie said.

The Atlantic basin includes the entire Atlantic Ocean, the Gulf of Mexico and the Ca-

ribbean Sea.

As for the already hurricane-battered Gulf, Xie thinks three to five named storms could form there during the 2009 season, which runs from June 1 through Nov. 30, and that one to three of those could become full-fledged hurricanes.

Xie took a look at 100 years' worth of data to come up with his forecast.

Source: The Business Journal of the Greater Triad Area

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Hurricane Wilma, caused billions of dollars in damage, and the state had to issue assessments to recoup some of the money. In 2005, the Legislature infused \$715 million to offset deficits and reduce assessments, but people are paying those out to this day.

The Florida Office of Insurance Regulation counters that it has been proactive, and is much better prepared today.

CONCERNS ABOUT CITIZENS

John Kuczwanski, Citizens' public information manager, said Citizens has paid out about \$6 billion in claims from the storms of 2004-05. He said Citizens has access to \$16 billion to pay out claims. That \$16 billion includes the \$3.7 billion surplus generated by premiums, \$1.6 billion in bonds issued on its high-risk line, and a \$400 million credit line for its personal and commercial lines, Citizens reported at the end of 2008.

Citizens may have reported a \$3.7 billion surplus based on premiums across its three lines as of Dec. 31, but Jeff Grady, president and CEO of the Florida Association of Insurance Agents, is not reassured. He points to the fact that a good portion of the money Citizens would have to pay claims is borrowed. So, the losses from new storms would be felt by Floridians for years to come.

He also worries about the way Citizens' past bad investments continue to weigh it down. The state's insurance company wrote off \$200 million in 2008 for losses tied to investments the State Board of Administration made on behalf of Citizens, Kuczwanski said.

Grady said the problem for the state is when it uses borrowed money to invest and the money is lost.

"At one time, the interest they earned on the investments offset the losses paid out after storms," Grady said. "But, when the investments go south, it's a margin call."

Kuczwanski said the insurance industry overall experienced losses as a result of the real estate meltdown, and Citizens has instituted new controls to make sure its money is invested according to its guidelines, which is not what happened in the recent past.

But, the reality is that if there is a deficit in any of its three lines after a hurricane, the money will be made up through assessments, with Citizens policyholders getting hit first, followed by private policyholders.

Grady also continues to rail against the state's regulation on rates, which he said exposes companies to financially untenable risk. He supports the Legislature's move to allow large insurers like State Farm to charge unregulated rates, but Crist has signaled he might not sign the bill.

Critics of the bill, like the Consumer Federation of the Southeast and Florida Public Interest Research Group, say it will undermine small, regulated insurers, allow the big players to poach their smaller competitors' best customers and doesn't guarantee the big players will remain in the state.

A bill that did get the governor's signature is designed to reduce the state's cat fund exposure. Although the state will still be able to sell as much as \$28 billion in reinsurance in 2010, Florida can reduce the coverage by \$2 billion a year for the next six years.

The bill comes on the heels of last fall's bonding assessment, which said the cat fund could sell enough bonds to cover its \$28 billion obligation.

Webb, who is based in Tallahassee, continues to struggle to find a balance between keeping rates affordable and covering their risk. But, the reality is that policyholders will have to pay more.

"Florida is a peninsula that sticks out right in the middle of hurricane alley, and there is going to be a cost associated with it," she said. "People are going to have to pay for increased risk."

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Disaster funds

The U.S. Small Business Administration can make federally subsidized loans to repair or replace homes, personal property or businesses that sustained damages not covered by insurance. The loans fall into three categories:

- home disaster loans to homeowners and renters to repair or replace disaster-related damages to home or personal property.
- business physical disaster loans to

business owners to repair or replace disaster-damaged property, including inventory and supplies.

■ economic injury disaster loans, which provide capital to small businesses and to small agricultural cooperatives to assist them through the disaster recovery period.

For more information on SBA loans, go to www.fema.gov/assistance/process/assistance.shtm.