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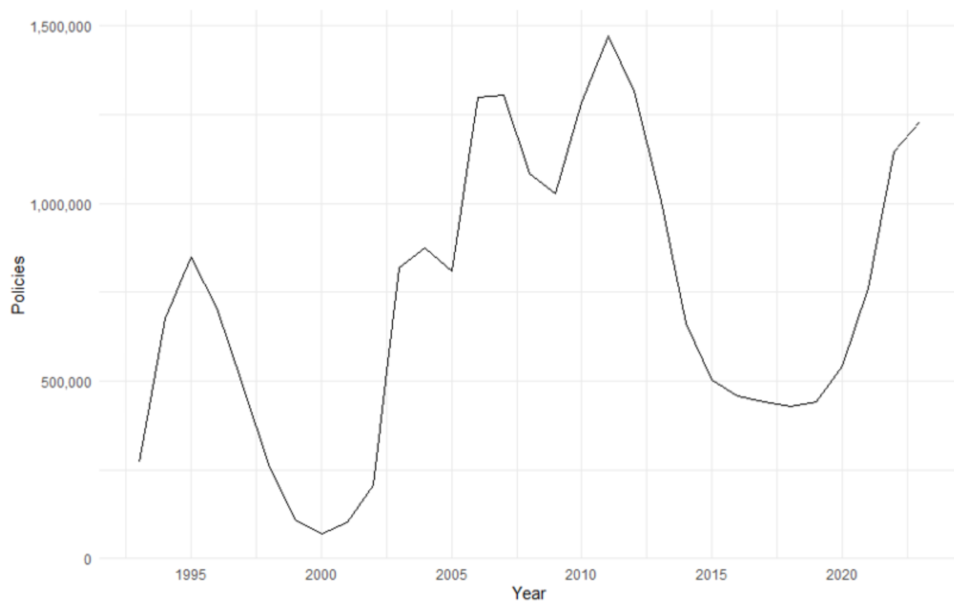
Stabilize or Socialize? Associational Policy Forms and State Responsibility for Hurricane Risk in Florida

Rising catastrophe risk is destabilizing private insurance markets in the United States, as private insurers raise premiums and withdraw from particularly risky regions. In states such as Florida, Louisiana, and California, private withdrawal has triggered regulatory crises for state governments under pressure to keep insurance available and affordable. State policymakers face the dilemma: to what extent, and how, should state governments get involved “in the insurance business” to correct for this market failure? On the one hand, state involvement in providing insurance can satisfy constituents looking for protection from disaster (Dauber 2013; Moss 2004). On the other, policymakers may have ideological or self-interested reasons to avoid the appearance of the state assuming responsibility for insuring disaster (Krippner 2007; Mayrl and Quinn 2016)

This paper examines how state policymakers in Florida have negotiated the boundaries between the state and insurance market in response to intensifying environmental disruptions. Since Hurricane Andrew in 1992, periodic catastrophic hurricanes have repeatedly disrupted the insurance market in Florida, leading major insurance companies to withdraw from the market. In response, policymakers have created and expanded various state insurance programs operating as “insurers of last resort”. These programs are essentially public insurance companies, run by the state government but fiscally distinct from the state budget. In theory, any policyholder can access coverage, with premiums being slightly higher than private insurers to prevent competition. This system combines competing welfare and actuarial logics of provision in a way which is designed to maintain public access to insurance without displacing private insurers.

Yet in spite of this initial private-public design, these programs have repeatedly swelled after major storms in response to private insurer withdrawal – alarming Republican policymakers concerned about the moral hazards of big government. During the early 1990s, new state programs created after Hurricane Andrew quickly swelled to over 1 million policyholders, leading the state to pass reforms in 1997 aimed at "depopulating" public insurers and transferring policyholders to the private market. Although temporarily successful in reducing the size of these programs, they would grow to over 1.4 million policyholder after two expensive hurricane seasons in 2004 and 2005. The result has been a recurring, quasi-Polanyian cycle of state expansion and retraction in response to market failures caused by catastrophic hurricanes.

Figure 1: Total Number of FL Policyholders Covered by State Insurers



I examine the institutional roots of this cycle during the formation of public insurance programs in the early 1990s. During this period, state actors framed their reforms as "stabilizing, not socializing" the private market because of how they relied on quasi-state organizations operating on a market-actuarial basis. I ask: how did state actors conceptualize the organizational boundaries of the state as the scope of state involvement in the insurance market fluctuated? My analysis compares how regulators and legislators framed quasi-state public insurers across three periods during the 90s: the immediate aftermath of Hurricane Andrew in which policymakers developed new public insurance programs, a period of policy implementation between 1994 and 1995 in which new public agencies defined their relation to other state and market actors (the IRS, regulators, private insurers), and finally a period between 1996 and 2002 in which policymakers managed to depopulate and shrink the size of public insurance providers.

I primarily draw on archival records from several regulatory and legislative organizations in the Florida state government, including legislative bodies on insurance, the Department of Insurance, and public insurance agencies. In addition, I draw on several qualitative interviews conducted with key regulatory actors.