

Recent Florida Legislation Will Allow for Creation of Specialty Sinkhole Coverage Lines

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The Florida Legislature passed legislation this session that allows specialty limited sinkhole coverage. According to the Florida Office of Insurance Regulation, Florida has more sinkholes than any other U.S. state. As such, the topic is particularly important in the Sunshine State. Under the legislation, which was passed as SB 1274, and signed by Governor Rick Scott on April 6, insurance carriers can now offer limited sinkhole damage policies that cover the cost of stabilizing buildings and repairing foundations, rather than the full cost of property replacement. The new legislation seeks to fill a void the legislature created in 2011, when it approved a measure that limited sinkhole damage coverage to homes and businesses with catastrophic ground cover collapse—meaning that a building had to actually fall into the sinkhole to qualify for coverage. However, the 2011 legislation responded to the rising cost and number of claims at the time. As a result, the number of claims shrank from approximately 4,500 in 2011 to 1,200 in 2013, with total losses and allocated loss adjustment expenses falling from \$537 million in 2011 to \$83 million in 2014. However, some Florida legislators argue the new legislation "will provide a market for insurance companies that want to insure for things less than the total structural collapses." These legislators also argue that it may result in private insurance carriers offering the limited sinkhole coverage, rather than it falling to the Citizens Property Insurance Corporation (CPIC). However, the CPIC is specifically prohibited from issuing limited sinkhole coverage. Geologists posit that Florida experiences more sinkholes than any other U.S. state because of the peninsula's geological composition. Specifically, the Florida Geological Survey noted that, "[s]ince the entire state is underlain by carbonate rocks, sinkholes could theoretically form anywhere" in the state. However, the state's west-central area, comprised of Pasco, Hernando, and Hillsborough counties, accounts for more than two-thirds of Florida's sinkholes. Thus, there is a potential new line of business for insurers in Florida, but only time will tell if any find insuring this risk sufficiently lucrative to be worthwhile. Time will also tell whether the mere existence of coverage for repair, rather than replacement, will play into coverage battles under traditional replacement cost policies, as some legislators apparently fear.

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