

Insurance Coverage Partitions and Responsibility for Sinkhole Risk in Florida

Rising natural disaster losses, driven by both global climate shifts and patterns of urban growth, are restructuring social exposure to environmental risk. Not only are patterns of hazard exposure themselves changing – for example in extended wildfire seasons, increased loss estimates, or expanding spatial exposure – but these impacts are further mediated by collective welfare institutions such as state disaster aid programs, charitable NGOs, or private insurance, which selectively provide protection from peril. One crucial question this process raises for sociologists is: how will these welfare institutions provide protection against new disaster risks, and how will this restructure social responsibility for risk?

Economic and environmental sociologists have recently begun examining this question in relation to a wide variety of welfare contexts. Focusing on the bureaucratic or actuarial classifications which condition access to protection, recent studies often examine how these classifications structure the social impacts of disaster and risk. Rebecca Elliott's work on the National Flood Insurance Program, for instance, shows how the reclassification of flood risk shifted costs and responsibility onto high-risk homeowners while, in the context of federal disaster aid, Ethan Raker has examined how bureaucratic rules unequally shape access to public disaster relief (Elliott 2021; Raker 2023). In these recent studies, the re-classification of people structures the impacts of climate disaster by positioning individuals within an unequal community of protection (Ewald 1991; cf. Fourcade and Healy 2013).

This paper builds on this recent work by examining the sub-classifications of hazards coverage, rather than people, within property insurance markets. Focusing on the case of sinkhole insurance in Florida, I analyze how state policymakers and private insurers have over time separated sinkhole coverage from standard home insurance policies, a process I refer to as

coverage partition. Coverage partitions occur when a hazard previously covered under a more generic insurance policy is excluded or split off as its own policy with its own actuarial risk pool. In the context of rising environmental risk, splitting coverage in this way gives insurers a way to avoid responsibility for unprofitable hazards, while continuing to coverage ‘normal’ risks. As with the actuarial subclassification of people – for example, introducing new spatial risk metrics into ratemaking – this process individualizes responsibility for risk making it the policyholders’ decision what hazards to insure and which risk pools to opt into. Yet, unlike the actuarial individualization of risk, coverage partitions accomplish this by restructuring the broader landscape of insurance options (i.e. insurance policies) within which individuals are actuarially classified.

Drawing on archival and interview data collected as part of a larger project on hurricane insurance reforms in Florida, I describe how policymakers have shifted responsibility for sinkhole coverage since the 1970s by merging and separating sinkhole coverage with other forms of insurance. Though sinkholes are not as costly or disruptive as Florida’s hurricane risk, they have come to represent an increasingly costly hazard for insured Florida property. As the state’s population and property exposure has grown, Florida policymakers have repeatedly had to determine how sinkhole losses should be covered and who (homeowners, private insurers, the state) should be responsible for losses.

I ask, how have these reforms shifted responsibility for sinkhole coverage? My analysis traces regulatory reforms to sinkhole coverage over three periods: during the 1970s, sinkhole coverage was provided through a public insurance program, the Florida Sinkhole Facility, as its own specialized policy. This program was intended to supplement the standard home insurance provided by private insurers, but, by the 1980s, financial problems led the state to end the

program. To replace this public coverage policymakers required that private insurers begin covering sinkhole risks under standard home insurance policies – shifting to a model of provision in which coverage was private but generic. By 2007, this model was under strain from both rising sinkhole losses and the impacts of the catastrophic 2004/5 hurricane seasons on home insurer premiums. Amidst debates over how to price in the costs of future storms – and widespread public opposition to home insurance rate increases – the state legislature acted to allow insurers to offer sinkhole coverage as an optional additional policy as a way to mitigate the impacts of home insurance premium increases. Under this system, homeowners can opt to buy sinkhole coverage from private insurers, or the state’s public insurer of last resort, creating a model in which coverage is specialized and provided by hybrid public and private insurers.

This sequence of reforms illuminates two broader mechanisms shaping responsibility for natural hazards insurance. On the one hand, the individualization of sinkhole risk in Florida was structured by federal mortgage standards which required that insured mortgages cover natural hazards risk but did not require sinkhole coverage. From state policymakers’ perspective, providing sinkhole coverage was desirable if possible but not essential to Florida’s real estate economy – unlike the provision of standard home insurance coverage. On the other, reforms to sinkhole coverage were structured by insurers’ and regulators’ attempts to cover Florida’s other, more costly environmental hazards, particularly hurricane losses. After the 2004/5 hurricane seasons, individualizing sinkhole risk provided a means to maintain the insurability and affordability of home insurance as it adjusted to increasingly catastrophic storms. Rather than representing a general process of individualizing risk, then, this case shows that the failure of collective insurance arrangements for particular hazards may function to maintain the “insurability” of other environmental hazards.