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On Residential Property Insurance Markets

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HISTORICAL AND LEGISLATIVE CONTEXT

HURRICANE ANDREW: DIRECT IMPACTS

With insured losses of over $16 billion, Hurricane Andrew remains the most costly natural disaster ever to affect the United States. The following table shows insured losses from Andrew by line of insurance business:

HURRICANE ANDREW INSURED LOSSES BY LINE OF BUSINESS (IN MILLIONS)	
Homeowner's	$10,191
Mobile home owners	$177
Farm owners	$15
Commercial multi peril	$3,298
Fire and allied lines	$1,514
Auto physical damage	$306
Other lines	$550
Total insured loss	$16,050

Future natural disasters could be even more costly. Hurricane Andrew was not the worst hurricane that could reasonably be expected to strike Florida, in that:

✔ Hurricane Andrew was a Category 4 storm on the Saffir-Simpson scale. The last Category 5 storm to strike the United States was Hurricane Camille in 1969.

✔ Hurricane Andrew made landfall in the southern part of Dade County. If the storm had made landfall in the more densely populated areas 20 or 30 miles farther north, the loss could have been far greater than $16 billion. A.M. Best Co. has stated that many experts believe that Andrew would have caused up to $50 billion in insured losses had it struck Miami or Ft. Lauderdale.

Hurricane Andrew also caused the insolvency of eleven property and casualty insurers.

The first natural disaster to cause more than $1 billion in insured losses (without adjusting for inflation) was Hurricane Hugo, which struck South Carolina in 1989. Since then there have been nine other natural disasters that have caused losses in excess of $1 billion.

U.S. NATURAL DISASTERS CAUSING INSURED LOSSES OF $1 BILLION OR MORE (IN BILLIONS)		
DATE	EVENT	INSURED LOSS
September, 1989	Hurricane Hugo	$4.2
October, 1989	Loma Prieta Quake	$1.0
October, 1991	Oakland fires	$1.7
August, 1992	Hurricane Andrew	$16.0
September, 1992	Hurricane Iniki	$1.5
March, 1993	Winter storms	$1.8
November, 1993	California brush fires	$1.0
January, 1994	Northridge Quake	$12.5
May, 1995	Texas hailstorms	$1.1
October, 1995	Hurricane Opal	$2.1

In the seven years preceding Hurricane Hugo, the countrywide total of insured losses from natural disasters was $11 billion, for an average of $1.6 billion per year. In the seven years 1989-1995, the total insured cost of natural disasters was $69 billion, for an average of $10 billion per year.

Hurricane Andrew exceeded most of the *worst-case* natural disaster scenarios that were commonly accepted at the time. According to A.M. Best, "Before 1992, many weather experts believed that a worst-case hurricane in the United States would produce less than $10 billion in insured property damage. They also projected that such a severe hurricane would occur only once a century."

WHY ARE THE COSTS OF NATURAL DISASTERS RISING?

Between Hurricane Betsy in 1965 and Hurricane Andrew in 1992, no major hurricanes struck Florida. The low frequency of hurricanes in this period was apparently a historical anomaly resulting from two factors: a long-term drought in sub-Saharan Africa, and the El Niño weather system. Since the end of the African drought and the end of El Niño, hurricane frequency has returned to the levels of earlier periods of history.

In a major study of catastrophes, the A.M. Best Co. identified a number of factors that have increased the cost of natural disasters:

✔ Global warming ("may be a contributing factor").

✔ Increasing population density, especially in high-hazard areas. Florida's population density rose from 18 persons per square mile in 1920 to 180 persons per square mile in 1980, and 258 persons per square mile in 1994. Florida's current population density represents a 1,333% increase since 1920 and a 43% increase since 1980. California's population density rose by 814% between 1920 and 1994, and Texas's population density rose by 289% in the same period.

✔ Rising building costs. According to A.M. Best, building costs "are most affected by changes in construction codes, improvements made to material quality and price gouging from economic supply and demand imbalances, particularly following large catastrophes."

✔ Inadequate or unenforced building codes.

✔ The reluctance of builders and homeowners to use better construction materials.

✔ Inflation.

America's potential for natural disasters threatens the viability of the entire property and casualty insurance industry. The total surplus (the insurance equivalent of net worth) of all property and casualty companies in the U.S. was $193.3 billion as of 1994. Any of several plausible natural disaster scenarios could wipe out a large portion of that industry-wide surplus.

According to the Natural Disaster Coalition, the following are some natural disaster scenarios. These projections are based on 500-year probable maximum losses (PMLs) calculated by Risk Management Solutions, Inc. ("Probable maximum loss" is the highest loss at a specified probability. A "500-year PML" is a loss for which the probability of it being exceeded is 0.2 percent; a 100-year PML has a probability of being exceeded of 1 percent.)

MAJOR NATURAL DISASTER SCENARIOS (IN BILLIONS)	
EVENT	INSURED LOSS
Earthquake—New Madrid fault	$100.6
Hurricane—Florida	$75.9
Earthquake—Los Angeles	$71.4
Earthquake—San Francisco	$35.6
Hurricane—Houston and Galveston	$22.4
Hurricane—Northeast U.S.	$20.6
Hurricane—Southeast U.S.	$16.6
Earthquake—Pacific Northwest	$13.3
Hurricane—Gulf Coast	$9.0

How Does Florida Fit into the National Picture?

History indicates that about one-third of all hurricanes that strike the United States will make landfall in Florida. From 1900 through 1992, 153 hurricanes made landfall somewhere in the United States; 55 of these hurricanes struck Florida. Of the 61 major hurricanes (defined as Category 3 or greater) that made landfall in the United States in that period, 23 struck Florida.

More significantly, Florida is expected to account for over half of the nation's insured losses from Atlantic and Gulf hurricanes.

A study prepared for the National Committee on Property Insurance by Applied Insurance Research in December, 1992, calculated the expected average annual aggregate insured hurricane losses by state. The total expected annual loss is $2.8 billion. Florida's share is $1.5 billion.

Expected Average Annual Insured Hurricane Losses by State		
State	Expected Loss (in $ millions)	Percent of Total
Florida	$1,503	53.0%
Texas	$361	12.7%
Louisiana	$250	8.8%
New York	$127	4.5%
Virginia	$88	3.1%
North Carolina	$81	2.8%
All other states	$416	14.7%

Several firms rate the claims-paying ability of insurers. An insurer is adversely affected when its rating is downgraded.

The most widely recognized rating firm, the A.M. Best Co., has begun to re-evaluate the impact of insurers' catastrophic exposures. From Hurricane Andrew through mid-1995, only one of the top ten property insurers in Florida saw its rating downgraded. In 1995, State Farm Fire and Casualty (but not the parent, State Farm Mutual) saw its Best's rating downgraded from A++ to A+.

In 1996, Best's issued a research report in which it stated that it was beginning to place far greater emphasis on an insurer's catastrophic exposures. According to that report:

> "Hurricane Andrew demonstrated that traditional market-share measures used by the industry and by A.M. Best in historical rating procedures were inadequate in accurately assessing insurers' real catastrophic exposures. A.M. Best's financial strength ratings didn't fully distinguish between a company that prudently managed its catastrophe exposures and one with aggressive risk exposures.
>
> "Over the past four years, A.M. Best has significantly bolstered its due diligence procedures to capture critical, and frequently confidential, catastrophe exposure information....
>
> "As part of its rating evaluation, A.M. Best is identifying companies with substantial catastrophe exposures and reflecting that risk in their ratings. More importantly, this interactive ratings approach has encouraged companies to better understand their property exposures and engage in more prudent risk management. *Ultimately, a particular company's rating and outlook will be negatively impacted by unfavorable catastrophe exposure comparisons with its peers and the industry.*" (emphasis supplied)

It is reasonable to expect that, as rating firms pay closer attention to insurers' catastrophic exposures, insurers will be under greater pressure to manage those exposures.

Within a few months after Hurricane Andrew, it became clear that insurers would attempt to reduce their catastrophic exposures in Florida by nonrenewing substantial numbers of policies. In early 1993, the Department of Insurance released a list showing that 39 insurers intended to nonrenew 844,433 policies in Florida. Legislative and regulatory intervention prevented, or at least moderated the pace of, such massive nonrenewals (see the discussion of the moratorium, below). But it is clear that today, some four years after Hurricane Andrew, many insurers have reduced their exposures by nonrenewing significant numbers of policies, many other insurers have stopped writing new business, and very few insurers have taken up the slack by entering Florida or expanding their Florida business.

The failure or inability of the private sector insurance market to serve all Florida property owners is exacerbated by the state's population growth. The Economic and Demographic Research Division of the Joint Legislative Management Committee has estimated that the state will see an average net increase of 158,000 housing units a year through the year 2005.

The market failure created a threat to the economy of the state. Mortgage lenders require property owners to insure against hurricane losses. If a homeowner fails to maintain the insurance, the mortgage is in default; if a potential home buyer is not able to obtain the required insurance, the sale will not go through because the buyer will not be able to obtain a mortgage. The legislative and regulatory reaction was to create the Residential Property and Casualty Joint Underwriting Association (RPCJUA) and to expand the Florida Windstorm Underwriting Association (FWUA) as means of assuring that all Floridians had access to property insurance.

The Florida Legislature has enacted a variety of laws to address the property insurance crisis. A summary of all of the property insurance legislation enacted since Hurricane Andrew is included as an appendix to this report.

The post-Andrew legislation addresses the following major issues:

✔ Creation of additional catastrophic insurance capacity. The Legislature created the Florida Hurricane Catastrophe Fund to provide a permanent, tax-exempt reserve to reimburse insurers (including the residual market entities) for their losses from a major hurricane.

✔ Loss prevention. The Legislature provided incentives to reduce insured losses from hurricanes.

✔ Affordability and consumer choice. The Legislature mandated that consumers be given options that will enable them to select appropriate and affordable levels of coverage.

✔ Availability. Moratoriums on hurricane-related cancellations and nonrenewals were adopted to restrict insurers' withdrawals from Florida.

✔ Residual markets. As is discussed in detail in the second part of this report, residual market mechanisms were created or expanded to provide insurers of last resort for Floridians who could not obtain property insurance coverage in the voluntary market.

Within a year after Hurricane Andrew, it was clear that there was a need for additional capacity to cover catastrophic losses in Florida. The Florida Hurricane Catastrophe Fund (often referred to as the "Cat Fund") was created to meet this need.

These are the key features of the Catastrophe Fund:

✔ All residential property insurers in Florida (including the RPCJUA and FWUA) must participate in the fund.

✔ Insurers select a coverage level equal to 45%, 75%, or 90% of their residential hurricane losses over their "retention level."

✔ If the moneys in the fund, together with what the fund can raise through the issuance of revenue bonds, are not sufficient to pay the obligations of the fund, claims payments will be pro-rated.

✔ Insurers annually pay an actuarially determined premium, which, for all accounting and regulatory purposes, must be treated the same as premiums paid for reinsurance.

✔ The fund may issue revenue bonds backed by assessments on all property and casualty insurance except for workers' compensation. The maximum assessment is 2% of premium, except that the maximum is increased to 4% when the Governor declares a state of emergency.

✔ The Catastrophe Fund is under the control of the State Board of Administration, which consists of the Governor, the Treasurer/Insurance Commissioner, and the Comptroller.

The Catastrophe Fund currently has a balance of over $1 billion, and has a bonding capacity of $5 billion. The fund is exempt from federal taxation pursuant to IRS private letter rulings dated November 21, 1994 and March 5, 1995.

The Legislature has recognized that prevention of future hurricane losses is critical to restoration of the insurance market. Loss prevention reduces the need for additional insurance capital by allowing existing capacity to be used to cover more risks.

These are the actions that the Legislature has taken to encourage loss prevention:

✔ Shutter discount. Property insurance rate filings must include discounts for properties on which fixtures that reduce windstorm losses (such as hurricane shutters) have been installed.

✔ Code enforcement. Property insurance rate filings must include factors that reflect the manner in which a particular jurisdiction's enforcement of building codes addresses risk of wind damage.

✔ Mobile homes. Discounts must be provided for mobile homes that meet the new (7/13/94) HUD mobile home standards.

✔ Loss prevention projects. Insurers are authorized to contract with building contractors for hurricane damage mitigation-related services. The Department of Insurance is authorized to contract with public or private entities for hurricane loss mitigation projects.

✔ Dedicated funding source for mitigation. The Catastrophe Fund law requires the Legislature (beginning with the 1997-98 fiscal year) to make annual appropriations of moneys from the fund for loss mitigation. The amount of the appropriation may not be less than $10 million, and is capped at 35% of the fund's investment income from the prior year. These appropriations may be used for programs intended to improve hurricane preparedness, reduce potential losses in the event of a hurricane, provide research into loss reduction, educate or assist the public as to ways to reduce hurricane losses, and protect local infrastructure from hurricane damage.

Since Hurricane Andrew, the Legislature has specified the minimum and maximum hurricane deductibles that may apply to an insurance policy, required insurers to offer certain deductibles, and required insurers to offer certain coverages.

A consumer can significantly reduce his or her total homeowner's insurance premium by increasing the applicable hurricane deductible. Increased use of higher hurricane deductibles also has a market impact similar to other loss reduction efforts: they reduce the need for additional insurance capital by allowing existing capacity to cover more risks.

These are some of the actions that the Legislature has taken to promote consumer choice and affordability:

✔ Mandatory offers of coverage. Insurers must offer replacement cost coverage (which pays losses up to the insured value without deducting for depreciation) in connection with all homeowner's policies, and must also offer law and ordinance coverage (which pays costs required to meet current codes when a house must be rebuilt). Many consumers who suffered losses in Hurricane Andrew did not have these coverages, although they assumed that the coverages were included in their homeowner's policies.

✔ Minimum and maximum hurricane deductibles. The minimum hurricane deductible is $500, except that properties valued at $50,000 or less may have a hurricane deductible as low as $250. The maximum hurricane deductible on a homeowner's policy is 2% of the property value, except that the maximum for properties valued between $100,000 and $500,000 is 5% of the property value, and there is no maximum for properties valued over $500,000.

✔ Mandatory offers of hurricane deductibles. With respect to homeowner's policies, insurers must offer both a $500 hurricane deductible and a 2%-of-property-value hurricane deductible. On properties valued between $100,000 and $250,000 the insurer need not make the $500 offer if the policy is guaranteed renewable for one renewal period. For properties valued at $250,000 or more, the only required offer is a hurricane deductible equal to 2 percent of the property value.

✔ Mobile homes. For mobile homes, the maximum hurricane deductible is 10% of the property value if the mobile home is owned free and clear, or 5% of the property value if the mobile home is subject to a lien. Mobile homes are not subject to the mandatory offers described above. These provisions were adopted to prevent mobile home owners from abandoning all insurance coverage as a result of rising premiums for hurricane coverage.

✔ Secured deductibles. The Legislature has adopted a plan that would allow a homeowner to take a higher hurricane deductible than would otherwise be allowed if the homeowner obtains a line of credit or other security designed to cover the amount of the deductible.

The Legislature has followed two strategies to protect the availability of property insurance in the current dysfunctional market: creation or expansion of residual market mechanisms to assure the presence of an insurer of last resort, and prevention of market shocks through restrictions on an insurer's ability to cancel or nonrenew policies for reasons of reducing hurricane losses.

In 1993, after it became clear that some insurers planned to reduce their hurricane exposure by nonrenewing massive numbers of policies, the Department of Insurance imposed a three-month moratorium on hurricane-related cancellations and nonrenewals. The Legislature later ratified this action and extended the original moratorium to six months.

Before the six-month moratorium expired, the Legislature adopted a new, 3-year moratorium on hurricane-related cancellations and nonrenewals of personal lines (homeowner's, mobile home, condominium unit owner, etc.) property insurance policies. Each year, an insurer was allowed to nonrenew no more than 5 percent of the personal lines property insurance policies statewide, or 10 percent in any one county, that it had in force as of the beginning of the moratorium.

The 1996 Legislature created a new 3-year moratorium to replace the 1993 moratorium, and also created a 3-year moratorium on nonrenewals of condominium association policies.

In general, the new provisions prohibit an insurer from nonrenewing in any one year for reasons of reducing hurricane losses more than 5 percent of the total number of policies it had in force as of June 1, 1996, statewide, or more than 10 percent in any one county. Transfers of a policies from one admitted insurer to another, changes in coverage that do not impair mortgages, and increases in deductibles that do not impair mortgages are not considered nonrenewals for purposes of the 1996 moratorium.

The 1996 moratoriums also include an enforcement mechanism. All insurers are required to report to the Department of Insurance, by county, the policy number of each policy in force as of June 1, 1996. Beginning October 1, 1996, insurers are required to make monthly reports to the department showing all cancellations and nonrenewals of policies on the June 1 list and the reasons for those cancellations and nonrenewals.

THE ENTITY

The FWUA is not a licensed insurer. It was organized in 1970, pursuant to Chapter 70-234, Laws of Florida, and is located in Jacksonville.

The FWUA is a nonprofit unincorporated association of all insurers licensed to transact property insurance on a direct basis in Florida. It provides only windstorm and hail coverage to policyholders for property located in eligible areas. Each member insurer participates according to its "participation percentage," which is the proportion its net direct premiums bears to the aggregate net direct premiums of all members written on property in this state during the preceding calendar year, adjusted for voluntary credits.

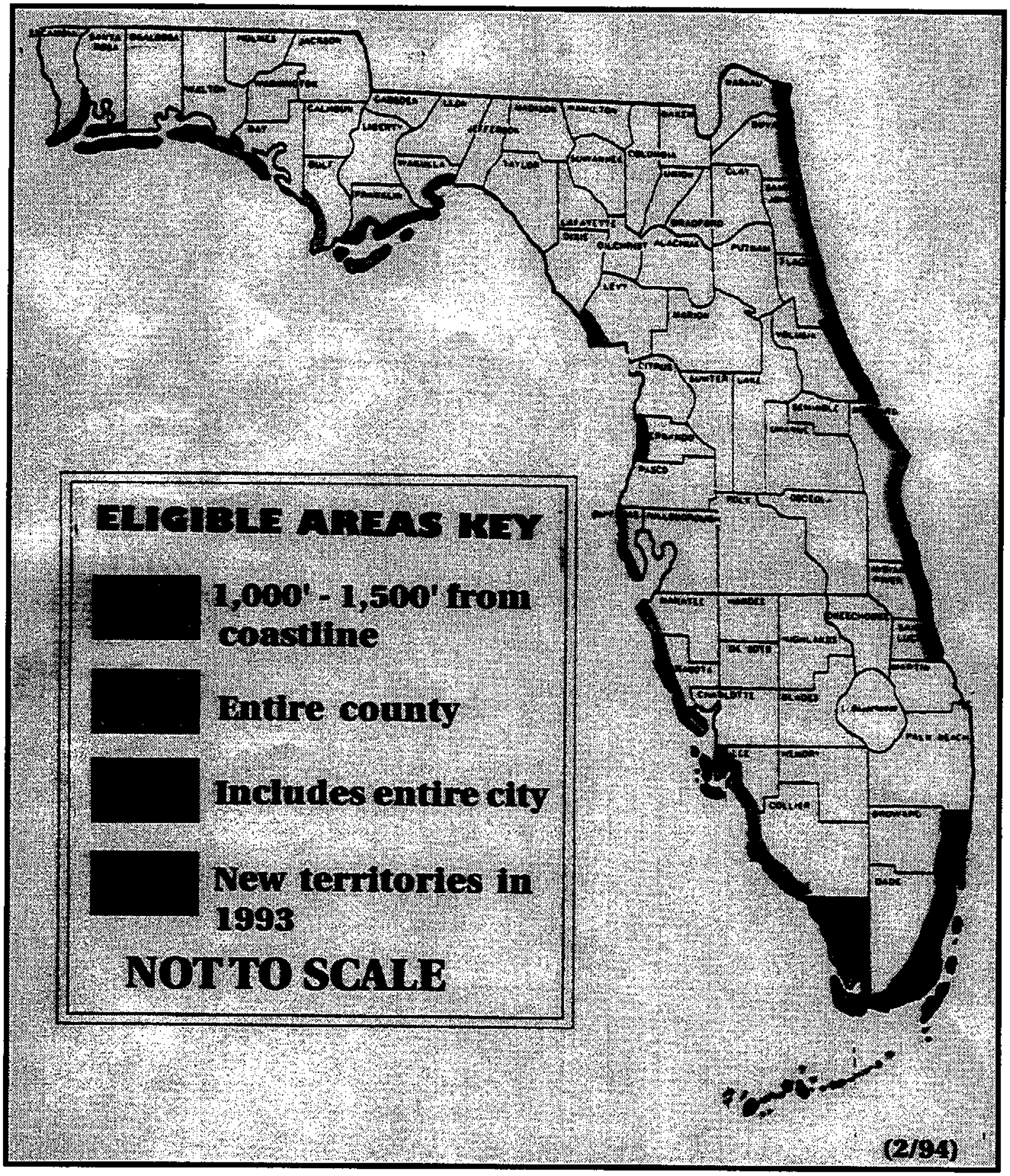
The FWUA operates pursuant to s. 627.351(2), F.S., and a plan of operation.

The FWUA has grown in both exposure and number of policies as illustrated by the following table:

TABLE 1: FWUA EXPOSURE DATA AS OF 7/31/96				
COUNTY	POLICIES IN FORCE		EXPOSURE	
	As of 7/31/96	Net change Since 12/31/95	As of 7/31/96	Net change Since 12/31/95
Bay	5,502	153	$757,270,000	$117,735,000
Brevard	3,658	2\64	$542,923,000	$68,375,000
Broward	53,050	7,206	$8,020,424,000	$1,464,881,000
Charlotte	1,300	31	$268,990,000	$23,785,000
Collier	6,798	808	$1,705,771,000	$552,250,000
Dade	65,264	5,975	$12,608,824,000	$1,555,456,000
Duval	1,523	92	$269,011,000	$43,642,000
Escambia	5,459	323	$776,637,000	$179,905,000
Flagler	1,258	64	$155,361,000	$9,587,000
Franklin	1,855	(102)	$250,867,000	($7,782,000)
Gulf	902	26	$103,080,000	$5,001,000
Hernando	451	81	$52,512,000	$11,083,000
Indian River	2,141	256	$634,950,000	$161,176,000
Lee	12,477	948	$2,243,403,000	$351,153,000
Levy	412	31	$44,962,000	$3,752,000
Manatee	3,497	238	$605,082,000	$96,757,000
Monroe	30,188	794	$4,850,448,000	$337,835,000
Nassau	985	48	$250,682,000	$96,975,000
Okaloosa	2,390	104	$560,334,000	$197,044,000
Pinellas	13,134	1,079	$2,281,261,000	$434,642,000
Santa Rosa	742	15	$159,997,000	$31,355,000
Sarasota	20,218	3,686	$3,353,512,000	$875,761,000
St. Johns	2,446	121	$489,346,000	$43,619,000
St. Lucie	2,948	232	$246,744,000	$37,999,000
Volusia	10,190	963	$1,214,645,000	$152,274,000
Wakulla	382	42	$43,831,000	$4,869,000
Walton	4,137	281	$823,877,000	$154,585,000
Total	253,307	23,759	$43,314,744,000	$7,003,714,000

These policies cover property located in eligible areas, as illustrated in the map on the next page.

Florida Windstorm Underwriting Association
Eligible Areas



Board of Directors

There are twelve board representatives, all member insurance companies, appointed or elected as follows: three representatives are appointed by three trade associations; eight representatives elected among and from at-large members; and one domestic board representative. The term of office is one year.

The board administers the plan of operation subject to supervision by the Department of Insurance.

Members' votes for board representatives are cast and counted on a weighted basis in the same proportion as each member's participation percentage.

Management

The Board of Directors appoints an Executive Director to manage the operations of the FWUA and report to the board.

There are five departments, each headed by a manager: underwriting, claims, human resources, data processing, and treasurer.

Staffing and out Source of Services

There are 98 employees, down from a staff of 120 employees.

All applications are reviewed, underwritten, and policies issued in-house. Computer programing is done in-house.

The FWUA does not use any service providers except to adjust claims resulting from a catastrophe. It has consultant contracts with hurricane modeling firms and financial advisers. The FWUA contracts on a per policy basis with the Insurance Services Office to conduct an on-sight survey of condominium complexes and apartment buildings.

UNDERWRITING STANDARDS AND IMPLEMENTATION

Underwriting standards require the agent to file with the application a photograph of the insured property. All files and photographs are scanned into the computer system and are immediately available in-house so that information may be easily cross-checked between departments, such as underwriting and claims.

The FWUA contracts with the Insurance Services Office to conduct surveys of apartment buildings and condominium associations, and the results are input into the FWUA computer system so the location of unit owners and tenants will be accurately and consistently identified in previously underwritten buildings.

The FWUA will not insure risks with a high probability of loss, risks where an appropriate premium cannot be calculated because of uncertainty of risk of loss or if there are other factors regarding uninsurable risks. The FWUA provides coverage for windstorm in limits up to $10 million for commercial residential risks, up to $1 million for personal residential risks, and up to $1 million for commercial property. Higher limits are available if coverage is not available in the private market.

ELIGIBILITY STANDARDS AND IMPLEMENTATION

The FWUA insures risks that cannot get coverage in the voluntary market. There is not a voluntary market insurer of only windstorm writing in this state. Insurers writing residential or commercial coverage may include windstorm in the primary homeowner's coverage. If the insurer writing the homeowner policy places the coverage with FWUA there is little probability of competing coverage being available.

Only those risks in eligible geographic areas may obtain coverage in the FWUA. The department determines an area eligible for FWUA coverage if the department finds after a public hearing:

✔ that the area is economically stifled, mortgages are in default, and financial institutions cannot make loans;

✔ the area has adopted and is enforcing the State Minimum Building Codes; and

✔ the provision of windstorm coverage is consistent with policies for coastal protection.

There are no appointed agents, and all applications are checked in-house to determine if the property is in an eligible area before the policy is effectuated by the FWUA.

Deficits and Assessments

If the FWUA incurs a deficit that exceeds 10 percent of the aggregate statewide direct written premium for property insurance, the FWUA must impose a regular assessment upon member companies. The amount of the assessment may not exceed 10 percent of the deficit or 10 percent of the aggregate statewide direct written premium for property. Each insurer's share is in proportion to the insurer's participation percentage. The insurer may make a rate filing with the department to recoup the assessment from policyholders within one year or, at the insurer's option, a longer period.

If the deficit exceeds the amount that can be recovered through regular assessments, the FWUA may impose an emergency assessment directly upon policyholders of member insurers and joint underwriting associations. Each insurer collects the emergency assessment from its policyholders and remits it to the FWUA. The emergency assessment is based on a uniform percentage of that year's direct written premium for property insurance rather than the insurer's participation percentage. Unlike regular assessments, the statute provides that an emergency assessment is up to 10 percent of the amount to cover the deficit as well as fees, commissions, interest, reserves, and financing costs; or up to 10 percent of the aggregate statewide direct written premium for the subject lines in the prior year.

Deficit Assessments Imposed

1992 Deficit assessment of $16,160,123. Assessment imposed upon member insurers in 1993. The amount has been timely paid by member insurers. The stated reason for the deficit was Hurricane Andrew.

1993 Deficit assessment of $3,245,151. Assessment imposed upon member insurers in 1994. The total amount has been timely paid by member insurers. The stated reason for the deficit was the unnamed winter storm.

1994 Deficit assessment of $0

1995 Deficit assessment of $33,000,000. Assessment imposed upon member insurers in 1996. The total amount has been timely paid by member insurers. The stated reason for the deficit was Hurricane Erin.

Deficit assessment of $84,000,000. Assessment imposed upon member insurers in 1996. The total amount has been paid. The stated reason for the deficit was Hurricane Opal.

All deficits are calculated according to Statutory Accounting Principles. The FWUA has interpreted its statutory authority as only authorizing deficits which are the result of a windstorm or hail. The 1996 property bill, chapter 96-194, Laws of Florida, altered the assessment authority of the FWUA so that the FWUA may make regular or emergency assessments without regard to whether the deficit is the result of a catastrophic event.

Credits and Exemptions as Provided by Statute

An insurer may earn voluntary credits as a way to reduce participation in the FWUA by voluntarily writing windstorm coverage in an affected area.

New companies or small companies have limited assessment responsibility.

An assessment may be deferred if an assessment would impair a company's solvency.

Residential Property And Casualty Joint Underwriting Association

The Entity

The RPCJUA is a residual market mechanism, whose certificate of authority was issued on January 21, 1993.

It provides for the equitable apportionment or sharing among property and casualty insurers of homeowners insurance for applicants who are in good faith entitled to but cannot procure insurance through the voluntary market.

It issues its own policies and, while it has member insurers, the policies are not syndicate policies.

Size and Exposure

Table 2 shows the RPCJUA's present exposure, broken down by policy type. Table 3 shows exposure broken down by county for coastal counties, and Table 4 shows exposure for non-coastal counties.

TABLE 2: RPCJUA Policies by Type (7/31/96)

Policy Type	Policies in Force	Premium	Coverage A Exposure	Coverage C Exposure
Homeowner's w/wind	419,494	$227,179,292	$39,030,220,200	$19,494,534,080
Dwelling w/wind	155,245	$34,858,918	$10,180,201,078	$1,345,545,942
Mobile home w/wind	67,364	$25,591,461	$2,147,947,700	$1,029,761,395
Condo unit w/wind	74,927	$16,235,705	$1,304,671,957	$1,889,979,545
Tenant w/wind	29,764	$5,231,239	$1,430,900	$628,161,863
MH dwelling fire w/wind	24,371	$5,699,461	$528,845,883	$161,689,769
Homeowner's ex-wind	61,798	$33,622,567	$7,478,684,600	$3,730,680,479
Dwelling ex-wind	34,803	$6,147,389	$2,908,429,717	$469,502,230
Mobile home ex-wind	1,351	$351,164	$39,285,400	$19,006,065
Condo unit ex-wind	45,393	$8,641,956	$942,047,506	$1,283,987,965
Tenant ex-wind	7,415	$1,345,642	$62,500	$197,461,080
MH dwelling fire ex-wind	700	$87,567	$15,291,288	$3,702,608
Total w/wind	771,165	$314,796,076	$53,193,317,718	$24,549,672,594
Total ex-wind	151,460	$50,196,285	$11,383,801,011	$5,704,340,427
Combined total	922,625	$364,992,361	$64,577,118,729	$30,254,013,021

TABLE 3: RPCJUA EXPOSURE IN COASTAL COUNTIES (AS OF JULY 31, 1996)

COUNTY	POLICIES IN FORCE	WINDSTORM POLICIES IN FORCE	EX-WINDSTORM POLICIES IN FORCE	NET INCREASE IN POLICY COUNT SINCE JULY 1, 1996	COVERAGE "A" WINDSTORM EXPOSURE	COVERAGE "A" TOTAL EXPOSURE
Dade	183,788	133,930	49,858	4,001	$11,551,243,361	$15,924,628,312
Broward	139,829	97,422	42,407	2,898	$7,998,816,043	$10,955,400,439
Palm Beach	93,297	93,278	19	2,730	$8,191,415,390	$8,193,380,490
Pinellas	75,720	67,861	7,859	2,112	$3,955,620,838	$4,442,885,077
Hillsborough	52,757	52,743	14	1,644	$3,327,635,991	$3,328,279,991
Lee	30,520	25,996	4,524	693	$1,615,221,507	$1,965,949,020
Pasco	27,553	27,554	9	632	$1,416,182,808	$1,416,388,808
Duval	25,800	24,955	845	222	$1,300,361,690	$1,368,190,910
All other coastal counties	193,974	148,074	45,910	4,373	$8,607,670,027	$11,751,412,321
All non-coastal counties	99,387	99,352	35	1,409	$5,229,150,071	$5,230,601,371
Total	922,625	771,165	151,480	20,714	$53,193,317,726	$64,577,116,739

TABLE 4: RPCJUA Exposure in Non-Coastal Counties (As of July 31, 1996)

County	Policies in Force	Windstorm Policies in Force	Ex-windstorm Policies in force	Net Increase in Policy count since July 1, 1996	Coverage "A" Windstorm exposure	Coverage "A" Total exposure
Alachua	4,540	4,539	1	(11)	$184,045,329	$184,176,329
Baker	422	422		(1)	$16,212,747	$16,212,747
Bradford	583	583			$25,869,700	$25,869,700
Calhoun	484	484		8	$19,074,581	$19,074,581
Clay	2,914	2,912	2	(29)	$140,047,440	$140,062,740
Columbia	1,632	1,630	2	11	$67,797,270	$67,860,270
DeSoto	1,037	1,037		16	$45,800,180	$45,800,180
Gadsden	1,340	1,340		39	$51,505,212	$51,505,212
Gilchrist	541	541		17	$20,752,128	$20,752,128
Glades	335	334	1	13	$13,564,950	$13,582,950
Hamilton	550	550		3	$22,824,664	$22,824,664
Hardee	758	758		(13)	$31,572,193	$31,572,193
Hendry	1,277	1,276	1	10	$54,182,884	$54,197,884
Highlands	2,595	2,593	2	40	$135,063,714	$135,148,714
Holmes	602	602		7	$23,052,104	$23,052,104
Jackson	1,393	1,393		40	$59,152,788	$59,152,788
Lafayette	126	126			$4,743,600	$4,743,600
Lake	5,361	5,359	2	50	$269,569,890	$269,678,890
Leon	5,038	5,036	2	22	$240,696,951	$240,828,951
Liberty	236	235	1	(6)	$8,708,090	$8,857,090
Madison	574	573	1	(1)	$20,990,101	$20,990,101
Marion	7,144	7,143	1	121	$316,413,686	$316,433,686
Okeechobee	1,504	1,502	2	28	$67,163,106	$67,190,106
Orange	23,051	23,048	3	674	$1,485,247,912	$1,485,359,912
Osceola	5,092	5,092		54	$346,619,195	$346,619,195
Polk	16,543	16,541	2	156	$796,599,661	$796,727,661
Putnam	3,430	3,425	5	(59)	$127,955,294	$128,029,294
Seminole	7,391	7,389	2	196	$522,902,021	$522,963,021
Sumter	785	784	1	(12)	$33,415,540	$33,451,540
Suwannee	1,173	1,172	1	25	$40,105,058	$40,125,058
Union	227	226	1	5	$9,125,250	$9,130,250
Washington	707	705	2	8	$28,259,832	$28,510,832
County not specified	2	2		(2)	$117,000	$117,000
All non-coastal counties	99,387	99,352	35	1,409	$5,229,150,071	$5,230,601,371

The Board of Governors

There are 13 members on the Board of Governors: the Insurance Consumer Advocate; five members designated by the insurance industry; five consumer members appointed by the Insurance Commissioner; and two representatives of the insurance industry appointed by the Insurance Commissioner. All members are appointed for a three year term.

The Insurance Commissioner may remove any board member for cause, and appoint the replacement.

The board is responsible for implementation of the statute and the plan of operation.

Management

The Board appoints an Executive Director to oversee the daily operation of the RPCJUA.

The RPCJUA has nine departments: operations, underwriting, claims, producer administration, systems & services, finance, information technology, depopulation, and human resources.

The RPCJUA staff has oversight of the operations of servicing carriers.

Staffing and out Source

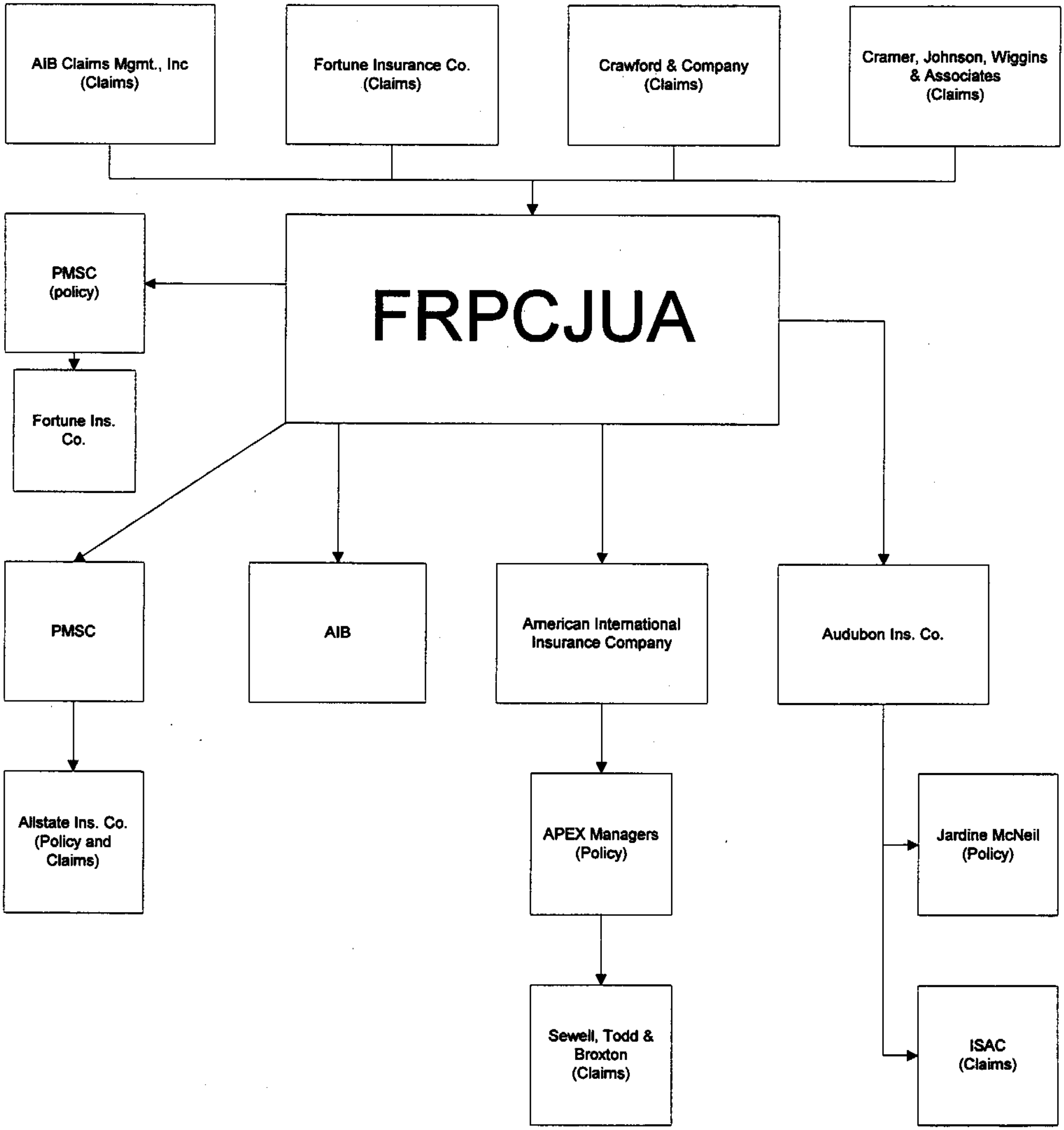
The RPCJUA does not service applications, issue policies, or adjust claims in-house. These functions are performed by outside servicing carriers under contract with the RPCJUA. The RPCJUA's relationship with servicing carriers for residential and commercial policies are depicted in the charts on the next two pages.

The RPCJUA acts as a home office with oversight of servicing carriers as provided for by contract.

The RPCJUA is in the process of moving its office from Sarasota to Tallahassee.

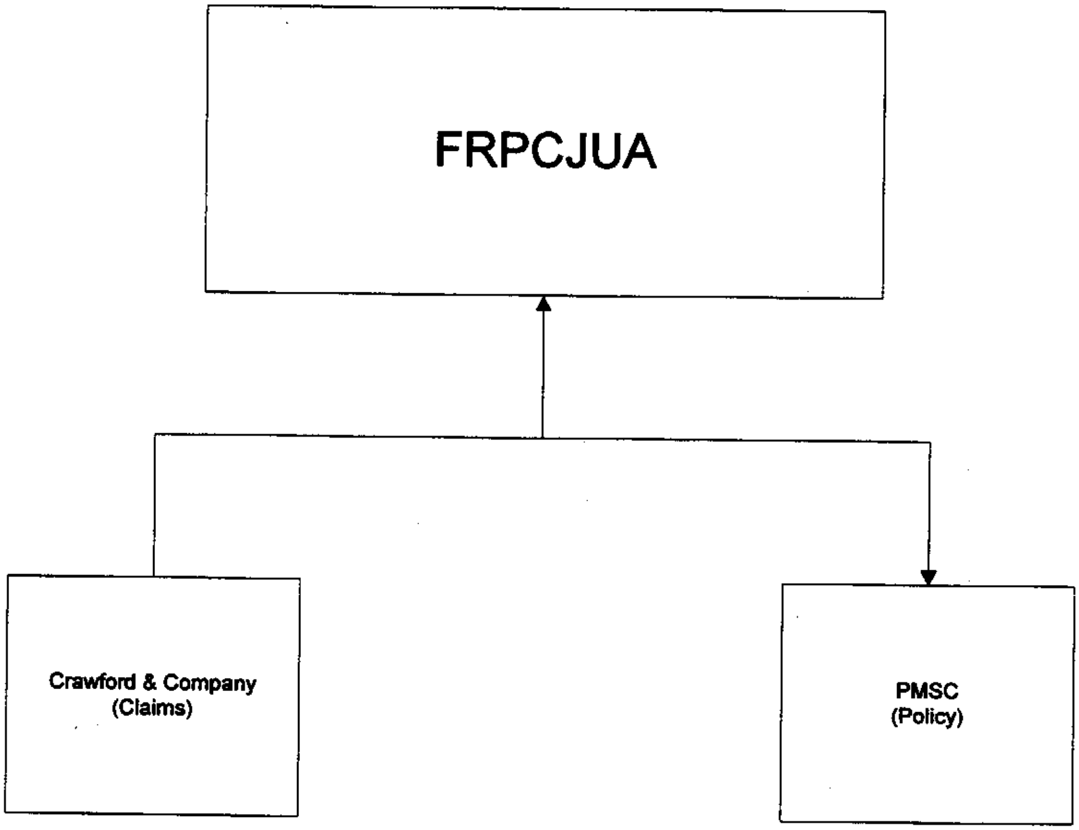
POLICY AND CLAIMS SERVICE ARRANGEMENTS (RESIDENTIAL)

August 29, 1996



POLICY AND CLAIMS SERVICE ARRANGEMENTS (COMMERCIAL)

August 29, 1996



Underwriting Standards and Implementation

The RPCJUA provides residential coverage, such as homeowners and mobile homes, and commercial residential coverage, such as apartment buildings and condominium associations.

The underwriting standards are similar to standards for such coverage in the voluntary market.

Servicing carriers are under contract to review policies to determine whether they meet underwriting standards.

Eligibility Standards and Implementation

An applicant is eligible for coverage in the RPCJUA only if coverage is unavailable in the voluntary market. The unavailability of coverage is established by the applicant and agent certifying that there is no available coverage in the voluntary market.

Agents appointed to write for insurance companies that are not accepting coverage for homeowners may write policies into the RPCJUA upon the agent and applicant certifying that coverage in the voluntary market is unavailable.

The RPCJUA has over 6,000 appointed agents, all with binding authority.

Deficits and Assessments

If the RPCJUA incurs a deficit exceeding 10 percent of the aggregate direct written premium for property insurance in Florida, the RPCJUA must impose a regular assessment upon member companies and may impose interim assessments until receipt of the regular assessments. The amount of the regular assessment is equal to the greater of 10 percent of the deficit or 10 percent of the aggregate statewide direct written premium for property. An insurer's share of the regular assessment is in proportion to the insurer's direct written premium for residential and commercial residential lines relative to the aggregate statewide direct written premium for these lines. The insurer may make a rate filing with the department to recoup the assessment from policyholders within one year or, at the insurer's option, a longer period.

If the deficit exceeds the amount that may be recovered through regular assessments, the RPCJUA may impose an emergency assessment directly upon policyholders of member insurers and joint underwriting associations. The insurer collects the assessment and remits it to the RPCJUA. The emergency assessment is a uniform percentage of that year's direct written premium for property insurance, rather than in proportion to market share. Unlike regular assessments, the statute provides that an emergency assessment is up to 10 percent of the amount to cover the deficit plus fees, commissions, interest, reserves, and financing costs; or up to 10 percent of the aggregate statewide direct written premium for the subject lines in the prior year.

If an assessment is imposed upon member companies and joint underwriting associations, the RPCJUA is required by statute to impose an assessment, or market equalization charge, upon its own policyholders so that these policyholders will not receive a benefit not available to other policyholders.

Deficit Assessments Imposed

1993 No deficit assessment for this year.

1994 Deficit assessment for personal lines $17,707,775. No assessment for commercial lines. This assessment was imposed upon member companies in 1996 and has been timely paid by member insurers.

1995 Deficit assessment for personal lines $22,831,299. No assessment for commercial lines. This assessment will be imposed upon member companies in 1996.

The losses to the RPCJUA, an insurer separate from its member companies, from Hurricane Erin was $20 million, and from Hurricane Opal $13 million. The expense to the association for adjusting catastrophe claims was $4 million. The total loss was approximately $37 million. These are lower than average expected losses from hurricanes for the RPCJUA. These figures are evidence of inadequate rates since deficits are occurring with relatively low hurricane losses.

Assessments are calculated according to Generally Accepted Accounting Principles.

The 1996 property bill, chapter 96-194, Laws of Florida, changed the rating requirement for the RPCJUA. The RPCJUA must adopt rating plans that provide, for each county, that the average rates of the association for each line of business are the same as the average rates charged by the insurer that had the highest average rate in that county among the 20 insurers with the greatest total direct written premium in the state for that line of business. For mobile home coverages, the association's rates must be higher than the 8 insurers with the greatest premium for this line of business.

CREDITS

An insurer that takes 50,000 policies out of the RPCJUA pursuant to the take-out program receives a credit for only those policies taken out, and the credit reduces on a graduated scale over time.

An association that increases its coverage of wind exposure by 25 percent or more is exempt from RPCJUA assessments for that year for the increased exposure.

An insurer that first wrote personal lines residential property coverage after July 1, 1994, is exempt from RPCJUA deficit assessments until the earlier of the following:

✔ the end of the calendar year in which it first wrote 0.5 percent or more of the statewide aggregate direct written premium for any line of residential property coverage; or

✔ December 31, 1997, or December 31 of the third year in which it wrote such coverage, whichever is later.

The RPCJUA Board of Governors has the statutory authority to develop future credit incentives. One such program is the "Open House."

An insurer that would be made insolvent by payment of an assessment may have the assessment deferred.

Other Issues Relating to the Residual Market

Take-out Program

The RPCJUA pays insurers removing a minimum of 25,000 policies from the association up to $100 for every risk the insurer removes. All money paid must be placed in an escrow account for a three year period and may be used during that three year period only to pay claims.

An insurer can get an additional benefit of credits to reduce RPCJUA assessments on a graduated scale over a three year period if the insurer removes 50,000 or more risks from the RPCJUA and 40 percent of the risks are located in Dade, Broward, and Palm Beach Counties, or at least 30 percent of the risks are removed from such counties and an additional 50 percent of the risks are located in other coastal counties.

Insurers must renew policies taken out of the RPCJUA under the take-out program for two additional one year period and cannot cancel such policies on the basis of hurricane exposure. If a policy is canceled for a reason other than hurricane exposure, the insurer must remove from the RPCJUA one additional policy covering a risk similar to the risk covered in the canceled or nonrenewed policy.

There is also a take-out plan for condominium associations whereby an insurer may receive an assessment exemption and be paid up to 25 percent of the association's one-year premium for each policy if the insurer takes out $100 million in structural exposure. In order to qualify, at least 40 percent of the policies must be located in Dade, Broward, and Palm Beach Counties, or at least 30 percent of the policies must be located in such counties and an additional 50 percent must be located in other coastal counties.

The RPCJUA board must approve the proposed take-out plan. The plan is forwarded to the department for the department to make the following determinations:

✔ the capacity of the insurer to absorb the risks taken out and the concentration of risks of those policies;

✔ whether the geographic, risk characteristics of policies will reduce the exposure of the association sufficiently to justify the bonus;

✔ the degree to which the take-out bonus is promoting new capital being allocated by the insurer to homeowner's property insurance in this state; and

✔ the degree to which the take-out plan will promote new capital allocated by an insurer to the Florida residential property market.

An insurer removing condominium association policies from the RPCJUA pursuant to a take-out plan may exclude such removed policies from assessment liability under § 627.351, Florida Statutes, for the succeeding 3 years on a graduated scale.

An insurer is exempt from assessments under § 627.351, F.S., if the insurer increases its total condominium hurricane exposure by 25 percent or more for the preceding year.

The present situation regarding the take-out program is illustrated in the report on the next page.

Report of Policies Tagged Under the Takeout Bonus & OPEN HOUSE Depopulation Programs

Company	Wind	Ex-Wind	Total	*Removal Date
AIB	26,646	586	27,232	05/27/96
Argus	29,066	25,551	54,617	
Bankers	73,905	17,975	91,880	02/21/96
Takeout Bonus Total	**129,617**	**44,112**	**173,729**	
Open House Program (Tagged for Removal)				
American Summit	5,000	576	5,576	12/02/96
Companion Property & Casualty	11,150	20,922	32,072	09/15/96
Florida Farm Bureau	1,530	152	1,682	
Horace Mann	8,347	1,653	10,000	10/22/96
Hartford	449	1,421	1,870	01/30/96
Liberty Mutual	1,642	858	2,500	09/15/96
Prudential	77	0	77	12/04/96
Florida Family Mutual	14,672	2,967	17,639	
Florida Select	77,067	47,580	124,647	
New Hampshire	12,500	25,790	38,290	
Southern Family	38,098	6,792	44,890	11/25/96
Open House Total	**170,532**	**108,711**	**279,243**	
Overall Totals	**300,149**	**152,823**	**452,972**	
To Be Tagged				
Fortune Insurance	6,750	3,250	10,000	
Sunshine Insurance Exchange	35,000	15,000	50,000	
National Premier Insurance	25,000		25,000	
Clarendon/Omega			40,000	
Biscayne Insurance	13,015	5,000	18,015	
Total to be Tagged	**79,765**	**23,250**	**143,015**	

*Date company began or is expected to begin removing policies from the FRPCJUA.

The FWUA and the RPCJUA are not member insurers of each other and only participate with each other to the extent that either imposes an emergency assessment upon policyholders. The FWUA is not a member of the RPCJUA because it is not a licensed insurer, interpreting its status as an association issuing syndicate policies whereby every member insurer is involved in the issuance of each policy rather than the FWUA itself. Although the RPCJUA is a licensed insurer and the second largest insurer in this state, the FWUA board has determined that the implementing statute did not intend to include residual market insurers as members of the FWUA, because assessments imposed upon the RPCJUA could go to deficit and result in double assessments upon member companies. There is little statutory guidance upon this issue.

Neither the RPCJUA nor the FWUA are state agencies, the RPCJUA by direct statutory language and the FWUA by interpretation of its implementing statute. It is not clear whether both or either are public entities for the purpose of consistent application of all laws affecting public entities. Examples of such laws are the public records law, the sunshine law, and requirements for publication of requests for bids to provide services.

The FWUA has approved giving voluntary credits to companies who take out policies from the RPCJUA. There is little statutory guidance on this issue.

Both bills had the goal of deactivating the RPCJUA and replacing it with a different residual market mechanism limited to providing homeowner's property coverage only in areas of the state where there is no voluntary market.

Both bills encouraged placement of RPCJUA policies in the voluntary market.

Both bills would have expanded the concept of a residual market mechanism providing hurricane coverage in coastal areas in order to encourage growth of the voluntary market.

Section 9. Working group on residual property insurance markets.—

(1) FINDINGS. The Legislature finds and declares:

(a) That for the foreseeable future, residual market mechanisms will be needed to provide at least hurricane insurance coverage in at least some parts of the state.

(b) That the Legislature reaffirms its previous declarations that there is a compelling public interest in assuring the availability and affordability of property insurance for all residents of the state.

(c) That a permanent replacement is required for the existing residual market mechanisms, the Residential Property and Casualty Joint Underwriting Association and the Florida Windstorm Underwriting Association.

(d) That any permanent replacement for the existing residual market mechanisms must maximize the role of the private sector in providing hurricane coverage and minimize the role of the public sector.

(e) That the residual market alternatives proposed in HB 2693 and SB 2314, as filed for consideration in the 1996 Regular Session of the Legislature, together with any other replacement for the existing mechanisms, need further consideration and refinement before the Legislature decides among the alternatives.

(2) WORKING GROUP ON RESIDUAL PROPERTY INSURANCE MARKETS.—

(a) There is created within the Legislative Branch the Working Group on Residual Property Insurance Markets. The working group shall consist of: the Chair of the Committee on Insurance of the House of Representatives and the Chair of the Committee on Banking and Insurance of the Senate, who shall jointly chair the working group; the Insurance Commissioner or his designee; the Insurance Consumer Advocate; four additional members appointed by the Speaker of the House of Representatives; four additional members appointed by the President of the Senate; a member of the House of Representatives designated by the Minority Leader of the House of Representatives; and a member of the Senate designated by the Minority Leader of the Senate. The Speakers appointees shall include one representative of property insurers, one representative of mortgage lenders, one representative of Realtors, and one representative of consumers. The Presidents appointees shall include one representative of insurance agents, one representative of home builders, one representative of domestic property insurers, and one representative of consumers.

(b) The working group shall meet at the call of the chairs as needed between the adjournment sine die of the 1996 Regular Session of the Legislature and the commencement of the 1997 Regular Session of the Legislature. The working group shall develop recommendations to the Legislature for a permanent residual market mechanism to replace the existing Residential Property and Casualty Joint Underwriting Association and Florida Windstorm Underwriting Association, consistent with the findings in subsection (1). The working group shall provide a report of its recommendations to the presiding officers of the Legislature and the Governor by January 1, 1997, or such later date as is designated by the presiding officers.

(c) The staffs of the Committee on Insurance of the House of Representatives and the Committee on Banking and Insurance of the Senate shall provide staff support for the working group. Private sector members of the working group are not eligible for per diem or travel expenses.

(3) EXPIRATION.—This section is repealed on the first day of the 1997 Regular Session of the Legislature.

Appendix I: Summary of property insurance legislation enacted from 1992 through 1996

PROPERTY INSURANCE LAWS ENACTED BY THE FLORIDA LEGISLATURE SINCE HURRICANE ANDREW

DECEMBER, 1992, SPECIAL SESSION

Hurricane Andrew Emergency Legislation (CS/HB 33-A, Ch. 92-345, Laws of Florida)

The FIGA Shortfall: Provides for issuance of up to $500 million in tax free municipal bonds to fund the shortfall in the Florida Insurance Guaranty Association (FIGA) caused by Hurricane Andrew-related insolvencies. Bonds are financed by a special assessment on insurers of up to 2% of premiums written on all lines of property and casualty insurance, except automobile and workers' compensation. Insurers are allowed to pass the assessments on to consumers through premium increases. The limitation on FIGA liability for condominium association policies is significantly increased.

Activation of the FPCJUA for Unrepaired Property Covered by an Insolvent Insurer: Authorizing the Department to activate the Florida Property and Casualty Joint Underwriting Association (FPCJUA) for the purpose of insuring unrepaired hurricane-damaged property that had been insured by an insolvent insurer. Provides for the issuance of 6-month policies for this purpose.

Creation of the Florida Residential Property and Casualty Joint Underwriting Association (RPCJUA): Creates the new RPCJUA to be an insurer of last resort for homeowners insurance for persons unable to obtain coverage in the voluntary market. All insurers writing homeowners' insurance in the state must participate and be liable for deficit assessments on a market-share basis. Rates are to be set at above-market levels to encourage placement of risks in the voluntary market.

MAY, 1993, SPECIAL SESSION

Moratorium; Study Commission; Windstorm Pool; JUA Membership (HB 89-B; Ch.93-401, Laws of Florida)

Moratorium on Cancellations and Nonrenewals: Prohibits insurers from canceling or nonrenewing homeowner's and similar insurance policies on the basis of risk of hurricane claims for the 180-day period from May 19, 1993 until November 14, 1993. This is essentially the same as the emergency rule adopted by the Department of Insurance, except that it is extended for an additional 90 days. Allows the Department of Insurance to waive the restriction when it imperils the solvency of the insurer.

Study Commission: Creates the Study Commission on Property Insurance and Reinsurance, to look into the viability of the property insurance industry in Florida and the adequacy of regulation of reinsurance. The 13 members appointed by the Governor include the Chairman and a minority party member of the House Insurance Committee, the Chairman and a member from the other party of the Senate Commerce Committee, and representatives of insurers, insurance agents, reinsurers, mortgage lenders, and consumers.

Windstorm Pool (FWUA): This act rescinds the statewide expansion of the Florida Windstorm Underwriting Association (FWUA or "Windstorm Pool"), restoring the current law that authorizes the Windstorm Pool to provide windstorm coverage only in those areas that meet statutory eligibility criteria, as determined by the Department of Insurance, for persons unable to obtain coverage in the voluntary market. (Legislation enacted in the December Special Session would have expanded the Windstorm Pool statewide, effective April 10, 1993, but which never took effect due to the May, 1993 legislation.)

Residential Property and Casualty Joint Underwriting Association: Adds five consumer members to the board of the RPCJUA, bringing the total board membership to 13, 7 representing the insurance industry and 6 representing consumers. The Insurance Commissioner appoints 8 of the members (all 6 consumer members and 2 of the insurance members) and 5 of the insurance industry members are designated by the insurance industry.

NOVEMBER, 1993, SPECIAL SESSION

Florida Hurricane Catastrophe Fund (CS/HB 31-C, Ch. 93-409 Laws of Florida)

Creates the Florida Hurricane Catastrophe Fund, a trust fund under the State Board of Administration to reimburse insurers for a portion of their hurricane losses under homeowner's, commercial multi-peril, and other property insurance policies.

Funding: All insurers are required to annually pay to the fund the actuarially determined premium for the reimbursement provided by the fund.

Reimbursement provided: The board must enter into contracts with each property insurer promising to reimburse the insurer for 75% of that portion of the insurer's hurricane losses under property insurance policies in a particular calendar year that exceed 2 times the insurer's gross direct written premium for property insurance policies (except that, for insurers with surplus of $15 million or less, the reimbursement will be 75% of losses in excess of 1.5 times premium). However, the obligation of the fund is limited to the moneys in the fund and the moneys the fund is able to borrow.

Bonding: When moneys in the fund are not sufficient to pay obligations under the reimbursement contracts, the board must enter into agreements with local governments for the issuance of revenue bonds pledging future fund premiums. The term of these bonds may not exceed 15 years. If future fund premiums are not a sufficient revenue source to support all of the needed bonding, an emergency assessment in the amount of 2% of premium will be levied annually on all property and casualty insurers (except for workers' compensation) to provide an additional revenue stream for the bonds. When the combination of moneys in the fund and proceeds of revenue bonds is insufficient to meet the promise of 75% reimbursement in excess of the trigger level described above, the percentage of reimbursement to insurers will be reduced on a pro-rata basis.

Mitigation: After a year in which no reimbursable hurricane losses occur, 2% of the previous year's premium payments into the fund will be available for appropriation by the Legislature for projects to reduce potential hurricane losses.

Tax status: The act expresses legislative findings that the fund serves a governmental purpose and intent that the state be exempt from federal taxation with respect to moneys received by the fund. The act also requires the State Board of Administration to request an expedited opinion from the Internal Revenue Service as to the state's tax-exempt status with respect to fund revenues.

General Property Insurance Bill (CS/HBs 33-C and 43-C, Ch. 93-410 Laws of Florida, as amended by HB 131-C, Ch. 93-411 Laws of Florida and SB 54-C, Ch. 93-412 Laws of Florida)

This act addresses a variety of issues related to the property insurance crisis, with emphasis on phaseout of the 6-month moratorium on cancellation or nonrenewal of homeowner's and similar policies, consumer protection, solvency regulation, and changes to joint underwriting associations. The major provisions are:

Moratorium phaseout: For the 3-year period from November 14, 1993 through November 14, 1996, insurers are prohibited from canceling or non-renewing more than 5% of its homeowner's and similar policies in any 12-month period (or 10% in a county) for reasons of reducing hurricane exposure. An insurer may apply to the Department of Insurance for a waiver of these limits on the basis of its historic cancellation/nonrenewal rate or to avoid an unreasonable risk of insolvency. In addition, an insurer is allowed to proceed with cancellations or nonrenewals authorized under the 6-month moratorium or litigation relating to the moratorium, and insurers that began discontinuing writing in Florida prior to Hurricane Andrew are allowed to proceed with their plans to leave Florida.

Consumer protection: The major consumer protections in the act are:

Notice of cancellation or nonrenewal: A policyholder must be given 90 days' advance notice of cancellation or nonrenewal of residential property insurance policies; prior to this act, the notice period was 45 days.

Mandatory offers of coverage: Homeowner's policyholders must be offered replacement cost coverage (which pays losses up to the insured value without deducting for depreciation) and "law and ordinance" coverage (which pays costs required to meet current codes when a house must be rebuilt).

Retrofits: Effective July 1, 1994, residential property insurance rate filings must include discounts or reduced deductibles for properties on which fixtures that reduce windstorm losses (such as hurricane shutters) have been installed.

Code enforcement: Rate filings for residential property insurance may include factors that reflect the quality of building code enforcement in particular jurisdictions.

Standard hurricane exposure model: The Department of Insurance must adopt a standard hurricane exposure model for use in evaluating property insurance rate filings.

Mediation: The Department of Insurance is required to create a program for mediation of disputed property insurance claims.

Rating territories: Effective July 1, 1995, a rate filing for residential property insurance must use rating territories composed of one or more whole 9-digit zip code areas.

Solvency: The major solvency provisions of the act are:

Surplus requirements: For property and casualty insurers, the minimum surplus as to policyholders required for issuance of a certificate of authority is increased from $2.5 million to $5 million, and the minimum surplus required for maintenance of a certificate of authority is increased from $1.5 million to $4 million (phased in over a 10-year period for currently licensed insurers). For surplus lines insurers (insurers which are not licensed in Florida but are allowed to write policies on a limited basis), the minimum surplus is increased from $1.5 million to $15 million, phased in over a 10-year period for currently eligible surplus lines insurers.

Reserves: Property and casualty insurers are required to annually file an actuarial opinion of the adequacy of the insurer's reserves.

Financial examinations: The act requires annual financial examinations of insurers that have been licensed for 3 years or less, and requires examinations at least once every 5 years for insurers that have been licensed for 15 years or more (prior to the act, all insurers were subject to examination at least once every 3 years). Examinations may be performed by independent examiners under contract with the Department of Insurance.

Criminal penalties: Third degree felony penalties are provided for knowing, willful, intentional filing of materially false financial statements with the Department of Insurance.

Other solvency issues: The act also provides civil immunity for persons who provide the Department of Insurance with information about the financial condition of insurers, removes the authority of the department to waive junk bond investment restrictions, requires that waivers of accounting requirements be in writing, requires reporting of unusual premium growth rates, adds restrictions on approval of reinsurance from insurance exchanges and reinsurance backed by letters of credit, expands applicability of the Producer-Controlled Insurer Act, and expands applicability of holding company rules, including restrictions on contracts between affiliated companies.

1995 REGULAR SESSION

<u>Florida Hurricane Catastrophe Fund (HB 719; Ch. 95-1, Laws of Florida)</u>

Makes the following changes determined by the IRS to be necessary in order for the Cat Fund to be an integral part of state government and not be taxable by the federal government:

Initial State Capital Contribution: Appropriates to the Cat Fund $25 million in FY 1995-96 and $25 million in FY 1996-97 ($12.5 million from General Revenue and $12.5 million from the Insurance Commissioner's Regulatory Trust Fund each year).

Emergency Assessments (Broad-Based Funding Source): Authorizes the State Board of Administration to increase the emergency assessment on all property and casualty insurance policies (except workers' compensation) from 2% to an amount not exceeding 4% of gross direct written premium if the Governor has declared a state of emergency due to the occurrence of a hurricane.

Mitigation Funding: Requires the Legislature to annually appropriate from the Fund no less than $10 million but no more than 35% of investment income from the prior year (rather than up to 2% of premium income from the prior year). Delays funding of mitigation programs until FY 1997-98 but expands authorized uses for mitigation funding to include funding of local governments, state agencies, public and private educational institutions, and nonprofit organizations to support programs intended to improve hurricane preparedness, reduce potential losses in the event of a hurricane, provide research into hurricane loss reduction, educate or inform the public as to means to reduce hurricane losses, assist the public in determining the appropriateness of structural upgrades or in the financing of structural upgrades, or protect local infrastructure from potential damage from a hurricane.

<u>Property Insurance Legislation (CS/HB 2619, Ch. 95-276, Laws of Florida)</u>

Catastrophe Fund:
Provides three coverage levels (45%, 75%, and 90% of losses in excess of retention), rather than only the 75% level provided by current law.
Provides for reimbursement on a per-occurrence, rather than per-hurricane-season, basis.
Excludes commercial non-residential policies from coverage under the fund.
Revises methods of calculating premiums and retention: Beginning in 1995, each insurers' retention is a multiple of its Cat Fund premium. The retention multiple is determined by dividing $3 billion (the approximate industry-wide retention under previous law, after excluding commercial policies) by the aggregate estimated Cat Fund premium. This figure is an insurer's retention multiple at the 90% coverage level. If a lower coverage level (75% or 45%) is selected, the retention multiple is increased (by 120% or 200%, respectively). The Cat Fund must first reimburse "limited apportionment" insurers an amount equal to the lesser of $10 million or 10 times its Cat Fund premium. Next, the Fund must reimburse insurers an amount equal to each insurer's "expected payout," which is the insurer's percentage of total Cat Fund premium multiplied by the Fund's current fund balance and bonding capacity as reported by the Fund. Thereafter, remaining amounts are paid on a prorated basis. In all cases, an insurer may only be reimbursed for actual losses up to promised levels.

Joint Underwriting Associations: The act revises several provisions relating to the Residential Property and Casualty Joint Underwriting Association (RPCJUA), the Florida Property and Casualty Joint Underwriting Association (FPCJUA), and the Florida Windstorm Underwriting Association (FWUA).

Condominium association coverage: The act activates the FPCJUA (also known as the "commercial JUA") to provide coverage of condominium associations, apartment buildings, homeowners' association common areas, and other commercial coverages of residential structures. The act also provides a mechanism under which the Department of Insurance may activate the FPCJUA for other coverages based on certain findings. These provisions expire on July 1, 1996. In addition, the act specifies the criteria to be used by the FPCJUA in developing rates for coverage of residential structures, including the requirements that the rates be actuarially sound and reflect the actual catastrophic exposure of the JUA.

Amortization of deficits: With respect to deficits in the RPCJUA, FPCJUA, and FWUA, the act provides that when the JUA deficit exceeds 10% of the prior year's statewide gross written premium for the subject coverage or 10% of the deficit, whichever is greater, the JUA must contract with a local government for the issuance of revenue bonds for the benefit of the JUA pledging future assessments against insurers, rather than collect the entire amount in one year through assessments against insurers. Payment of an assessment may be deferred when the Department of Insurance finds that payment would endanger the solvency of the insurer. When the bonds remain unsold 60 days after issuance, the Department of Insurance must require insurers to purchase the bonds.

RPCJUA rate standards: Provides legislative intent that the rates of the RPCJUA be actuarially sound and that the JUA function as a residual market mechanism to provide insurance only when the insurance cannot be procured in the voluntary market. The act requires that RPCJUA rates be based on the JUA's actual loss experience and expenses, together with a factor that reflects actual catastrophic exposure of the JUA. The RPCJUA is required to make rate filings on March 31 and September 30 of each year; prior to the act, the RPCJUA was required to make rate filings only on each September 30.

New insurer incentive: The act requires that the plan of operations of the RPCJUA include credits against assessments for an insurer that began writing personal lines residential coverage in Florida after the effective date of the act. The credits expire 3 years after the insurer began writing in Florida, or when the insurer attains a market share of 0.5%, whichever occurs first.

Dissolution of RPCJUA: The RPCJUA will be dissolved when its board of governors determines that the conditions giving rise to establishment of the RPCJUA no longer exist and the Dept. of Insurance consents to dissolution. Upon dissolution, assets of the RPCJUA after payment of all obligations will revert to the Hurricane Catastrophe Fund.

Deductibles:
Establishes minimum and maximum wind deductibles. Minimum: $500 ($250 for properties valued under $50,000); maximum: 2% of policy limits (personal lines residential), 3% of policy limits (commercial lines residential). Exceptions: cap is 5% for a personal lines residential risk valued at $250,000 or more, no cap for a personal lines residential risk valued at more than $500,000; existing deductible programs and similar programs adopted by other insurers grandfathered-in.
Requires mandatory offer of $500 deductible and 2% deductible on personal lines risk, with certain exceptions..
Co-pay: authorizes insurers to offer co-pay of 10% of the first $10,000 of losses after deductible is exhausted.
Specifies notice with respect to wind deductibles and co-pays that must appear on face of policy.

Hurricane loss projections:
Creates the Florida Commission on Hurricane Loss Projection Methodology as a panel of experts to approve actuarial methods and models. Requires the State Board of Administration, in establishing Cat Fund premiums, and the Department of Insurance, in reviewing an insurer's rate filing, to use models approved by the commission.
Allows insurers to use any model used by the Catastrophe Fund as an interim model until the commission approves other models.

Building code enforcement:
150 days after DOI approves a building code rate factor plan reflecting the quality of enforcement of building codes, new rate filings must include those factors. Requires discounts for mobile homes that meet the new federal standards.

Recoupment:
JUA: allows insurers to recoup JUA deficit assessments from policyholders.
Cat Fund: allows insurers to include entire Cat Fund premium in rates.

Commercial property/casualty excess profits:
Sunsets applicability of excess profits law to commercial property and commercial casualty effective 1/1/97. Requires DOI to provide to the Legislature a history and accounting of the excess profits law by 10/1/95.

1996 REGULAR SESSION

Hurricane Insurance Affordability and Availability Act of 1996 (CS/SB 2314, Ch. 96-194, Laws of Florida)

Homeowner's insurance moratorium:
Replaces existing moratorium with new, 3-year "moratorium completion" that applies to policies in force on June 1, 1996. An insurer is prohibited from canceling or nonrenewing personal lines residential policies for reasons of reducing hurricane losses, except that the insurer may nonrenew up to 5 percent of such policies statewide in a 12-month period, or 10 percent in a

Provides that the Cat Fund will not cover additional living expenses.
Requires semi-annual publication of Cat Fund financial information.
Provides additional intent language and broader rulemaking authority.

Joint Underwriting Associations:
Moves commercial residential policies (condominium associations, apartment buildings) from Commercial JUA to Residential JUA.
Creates eligibility requirements for RPCJUA policies; a risk is ineligible if it can be covered in admitted voluntary market at approved rates.
Provides procedures for bonding and lines of credit, with multi-year emergency assessments to pay off the bonds. Insurers can be assessed up to 10 percent of statewide direct written premium for the subject lines of business, or 10 percent of the deficit, whichever is greater. If the deficit exceeds this amount, emergency assessments are collected by insurers, including the JUA, upon policies issued or renewed in the years following the regular assessments. Emergency assessments shall be a uniform percentage of that year's direct written premium for subject lines of insurance.
Sets interim rate standards (until JUA can develop its own loss experience for ratemaking): JUA rates are pegged to the highest rate in the county of the top 10 insurers' rates, with a 1 year phase in.
Authorizes take-out and keep-out credits for insurers that remove risks from JUA or keep risks out of JUA.
Specifies maximum limits for Florida Windstorm Underwriting Association ($10 million commercial lines residential, $1 million personal lines residential, FWUA shall write above these limits when coverage in admitted market unavailable).
Authorizes RPCJUA to issue bonds and incur other indebtedness.
Clarifies authority to pledge revenues to bonds and other indebtedness.
Requires JUA rate filings to be made on a use-and-file basis and allows rate filings as frequently as quarterly.
Effective 1/1/96, all new and renewal RPCJUA policies must be for a maximum term of 6 months.

JUA Depopulation:
Take-out bonus: requires JUA to pay an insurer that takes out a minimum of 25,000 policies from the JUA up to $100 for each risk removed, as approved by JUA ; DOI may reject plan based on specified criteria.
Exemption from assessment: when a new insurer takes 50,000 or more risks out of JUA, it is exempt from assessment with respect to those risks to the extent of 100% in the first year, 75% in the second year, 50% in the third year.
New insurers: exempts new insurers from assessment for 3 years or until they reach 0.5% market share.
Increased wind exposure: exempts an insurer from assessment with respect to any year in which it increases its wind exposure by 25% or more.
Take-out bonus and exemption for removing 50,000 risks apply to all risks, rather than wind risks only; in order to qualify, policies must be guaranteed renewable for 3 years and the bonus must be placed in escrow for 3 years (moneys can be released from escrow only to pay claims).
Agent bonus: all agents may retain unearned commission on removed policies; assuming insurer must either pay commission to agent of record or offer to retain agent.

Arbitration: Allows an insurer to request that a dispute with DOI regarding a rate filing be submitted to a 3-member arbitration panel, rather than an administrative hearing. The insurer and the department each appoints one arbitrator and those two arbitrators choose the third arbitrator, all of whom must be certified by the American Arbitration Association. The insurer must pay 100% of arbitration costs. Specified provisions of the Florida Arbitration Code (Chapter 682, F.S.) apply and the department must adopt rules consistent with the procedures of the American Arbitration Association.

Cat Fund recoupment: provides for full recoupment in an insurer's residential property insurance rates of Cat Fund premiums, but prohibits recoupment of reinsurance costs that duplicate Cat Fund coverage.

Hurricane Loss Projection Methodology Commission:
Deletes authorization for insurers to use in its rate filings, on an interim basis prior to adoption of standards by the Methodology Commission, the hurricane model used to set Cat Fund rates; standards adopted by the Methodology Commission would no longer be binding on DOI, but are admissible and relevant in any rate hearing.

Residential Property Insurance Rate Filings:
(1) Requires insurers to separately file rates for hurricane coverage and to reflect on premium notices to policyholders the premium for hurricane coverage and the premium for all other coverages; (2) allows an insurer to phase-in approved rate increases; (3) prohibits insurers from excluding windstorm coverage except in areas eligible for windstorm coverage from the Florida Windstorm Underwriting Association; (4) provides that rate filings based on computer models may not include a rate increase of more than 25% without a public hearing; includes a revised definition of hurricane coverage.

Florida Windstorm Underwriting Association:
Revises assessment procedures to track the procedures of the Residential JUA, which provides for multi-year assessments to be collected by insurers as a uniform percentage on all property insurance policies; revises financial provisions to specify that the FWUA has the power to issue bonds and incur other indebtedness, to pledge assessments and other revenues, and to accumulate reserves and retain surpluses.

Residential JUA:
(1) Revisions to improve JUA financing by specifying that the power of the JUA to pledge assessments as the source of revenue for bonds includes the power to pledge other revenues to secure other forms of indebtedness; (2) removes the 6-month JUA policy requirement; (3) authorizes the JUA to issue either a standard or a basic policy, based on objective underwriting standards; (4) pegs the average JUA rates in a county (until 1/1/98) to the insurer with the highest average rates in that county, considering the top 20 insurers rather than the top 10 insurers as currently provided, based on statewide market share; (5) allows an agent to indicate his preference for a servicing provider, but provides circumstances under which the JUA can make a different assignment.

JUA depopulation:

given county. Policies transferred from an insurer to another Florida authorized insurer do not count as a non-renewal. DOI may approve accelerated exposure reduction plans with nonrenewals that result in wind coverage through the Windstorm Association if the insurer retains the ex-wind risk, but the statewide total of such nonrenewals and other nonrenewals may not exceed the statewide total otherwise allowed under the moratorium.

Condominium association insurance moratorium:
Creates a 3-year moratorium on hurricane-related nonrenewals of condominium association coverage with same basic terms and conditions as the homeowner's insurance moratorium, summarized above.

Hurricane deductibles:
Provides for hurricane deductibles instead of windstorm deductibles with transitional provisions; for properties valued under $100,000, there are no exceptions to the mandatory offers of $500 and 2% of policy limits hurricane deductibles; for properties valued between $100,000 and $250,000, the insurer need not make the $500 offer if it instead provides an additional year of guaranteed renewability (but the insurer must make the 2% offer); for properties valued at $250,000 or more, the only required offer is 2%; the threshold for the maximum optional 5% deductible is lowered from $250,000 dwellings to $100,000 dwellings.

Insurers may also offer, at the option of the insured, secured hurricane deductibles under which the first $500 of a loss is deductible (all perils), the next $5,000 in hurricane losses are subject to a 90%/10% co-payment, and losses above this amount ($5,500) are subject to a deductible of up to 10% of policy limits, if the policyholder obtains a certificate of security backed by a line of credit or other assets to cover the deductible.

Mobile homes:
Exempts mobile homes from mandatory hurricane deductible offers; increases maximum hurricane deductible for mobile homes to 5% if the home is subject to a lien, 10% if it is not.

Catastrophe Fund:
Improves financing of the Florida Hurricane Catastrophe Fund, created in 1993 to provide reimbursement to insurers for a portion of their hurricane losses, by: (1) creating a public benefits corporation known as the Florida Hurricane Catastrophe Fund Finance Corporation to eliminate costs and delays in the bond issuance process; (2) extending the maximum term of the bonds from 15 to 30 years; (3) specifying purposes for which bond proceeds may be used; (4) specifying the authority of counties or municipalities as issuers of Cat Fund revenue bonds; and (5) allowing for advances of up to 90% of anticipated Cat Fund recoveries for "limited apportionment companies."

Rate standards (effective Jan. 1, 1997):

> **Deadline for regulatory action:** Requires the Department of Insurance to complete its review of an insurance rate filing within 90 days after the date of filing; the 90-day period is not tolled by requests for further information.

Revises agent compensation in connection with JUA depopulation plans; provides for bonuses to insurers for condominium association take-out plans.

Legislative working group on residual markets:
Creates a legislative working group to recommend permanent solutions to the residual market.
Maximize role of private sector

Insurer contracts with building contractors:
Allows insurers to enter into arrangements with building contractors for hurricane damage mitigation-related services.

Hurricane loss mitigation projects:
Allows DOI to contract with public or private entities for hurricane loss mitigation projects.

Special purpose homeowners' insurance companies (CS/SB 456, Ch. 96-345, Laws of Florida)

Authorizes the Department of Insurance to issue, on a temporary basis, a certificate of authority as a special purpose homeowner insurance company with limited regulation. The company must have a surplus of at least $10 million and must be the subsidiary of an insurance company authorized in at least one state with surplus of at least $50 million. The new company may write coverage only for risks removed from the Residential JUA or assumed from another insurer. For the first year of licensure, rates of a special purpose insurer are not subject to regulation, but are limited to 110% of the prior insurer's rate (including the RPCJUA) for substantially similar coverage, or the same rate that the prior insurer would have charged upon renewal. Policy forms must be substantially similar to standard ISO homeowner forms and must be filed with the department for approval. The company is exempt from RPCJUA and Windstorm Association assessments, but must participate in the Hurricane Catastrophe Fund and the Florida Insurance Guaranty Association. The company is subject to financial reporting requirements, premium to surplus limitations, and grounds for suspension or revocation of its certificate the same as authorized insurers. DOI must adopt rules within 60 days after the effective date. The department must approve or deny an application for a special purpose insurer within 75 days after receipt of the application. The department may not issue a certificate to a special purpose insurer after December 31, 1998, but already-issued certificates continue in force.

Appendix II: Residential Property and Casualty Joint Underwriting Association (RPCJUA) 1995 audited financial statement

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY

JOINT UNDERWRITING ASSOCIATION

STATUTORY FINANCIAL STATEMENTS AS OF DECEMBER 31, 1995 AND 1994

TOGETHER WITH

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Governors and Management of the
Florida Residential Property and Casualty
Joint Underwriting Association:

We have audited the accompanying statements of admitted assets, liabilities and unassigned deficit - statutory basis of the Florida Residential Property and Casualty Joint Underwriting Association (a Florida association) as of December 31, 1995 and 1994, and the related statements of operations, changes in unassigned deficit and cash flows - statutory basis for the years then ended. These financial statements and the supplementary schedules referred to below are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements and supplementary schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Insurance Department of the State of Florida, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and unassigned deficit of the Florida Residential Property and Casualty Joint Underwriting Association as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules by line of business are presented for purposes of additional analysis of the statutory financial statements rather than to present the admitted assets, liabilities, and unassigned deficit, results of operations and cash flows of the individual lines of business. This information has been subjected to the auditing procedures applied in our audit of the statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Governors and management of the Florida Residential Property and Casualty Joint Underwriting Association and for filing with the Insurance Department of the State of Florida and should not be used for any other purpose.

Arthur Andersen LLP

Miami, Florida,
June 7, 1996 (except with respect to the matters discussed in Note 21(e) and (f), as to which the date is July 17, 1996).

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY
JOINT UNDERWRITING ASSOCIATION

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND UNASSIGNED DEFICIT

DECEMBER 31, 1995 AND 1994

ADMITTED ASSETS	1995	1994
CASH AND CASH EQUIVALENTS:		
Cash on hand and on deposit	$ 2,286,655	$ 8,092,459
Short-term investments	238,582,043	167,296,711
Total cash and cash equivalents	240,868,698	175,389,170
PREMIUMS RECEIVABLE	5,325,793	2,894,723
INVESTMENT INCOME DUE AND ACCRUED	1,191,143	613,806
ELECTRONIC DATA PROCESSING EQUIPMENT, NET	1,031,766	147,839
DUE FROM AFFILIATES	477,781	64,000
OTHER ASSETS	1,245,347	-
Total admitted assets	$ 250,140,528	$ 179,109,538

LIABILITIES AND UNASSIGNED DEFICIT	1995	1994
LIABILITIES:		
Loss reserves	$ 88,473,980	$ 58,800,072
Accrued loss adjustment expenses	2,034,766	2,000,000
Unearned premiums, net of unearned ceded premium of $17,142,857 in 1995	221,079,076	138,250,739
Advance premiums	8,396,667	3,705,733
Premium refunds due	3,334,656	2,800,474
Drafts outstanding	10,532,026	13,006,567
Producer commissions due and accrued	3,808,782	3,054,569
Servicing company fees due and accrued	12,570,661	10,209,159
Fees and surcharges due and accrued	8,942,391	5,071,451
Accounts payable and accrued expenses	4,759,164	1,278,606
Taxes and fees due and accrued	5,907,683	-
Due to affiliates	634,893	580,648
Total liabilities	370,474,745	238,758,018
COMMITMENTS AND CONTINGENCIES (Notes 13, 18, 19 and 21)		
UNASSIGNED DEFICIT (Note 8)	(120,334,217)	(59,648,480)
Total liabilities and unassigned deficit	$250,140,528	$179,109,538

The accompanying notes to statutory financial statements are an integral part of these statements.

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY JOINT UNDERWRITING ASSOCIATION

STATUTORY STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
UNDERWRITING INCOME:		
Net written premiums	$ 351,844,736	$ 254,438,221
Less- Change in unearned premiums, net	(70,730,685)	(79,332,327)
	281,114,051	175,105,894
UNDERWRITING EXPENSES:		
Losses incurred	202,040,325	128,891,816
Servicing company fees	77,541,573	52,434,059
Producer commissions	41,824,238	28,122,524
Loss adjustment expenses	5,032,785	2,439,476
Line of credit fees	13,934,875	-
Taxes and fees	5,652,714	-
Other underwriting expenses	7,690,746	5,217,250
Other processing fees	5,663,493	4,168,630
Total underwriting expenses	359,380,749	221,273,755
Net underwriting loss	(78,266,698)	(46,167,861)
NET INVESTMENT INCOME	12,979,327	5,445,233
OTHER INCOME	5,281,625	40,737
Net loss	$ (60,005,746)	$ (40,681,891)

The accompanying notes to statutory financial statements are an integral part of these statements.

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY JOINT UNDERWRITING ASSOCIATION

STATUTORY STATEMENTS OF CHANGES IN UNASSIGNED DEFICIT FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
BALANCE, beginning of year	$ (59,648,480)	$ (17,914,690)
Assumption of FPCJUA accumulated surplus	546,575	-
Net loss	(60,005,746)	(40,681,891)
Increase in nonadmitted assets	(1,226,566)	(1,051,899)
BALANCE, end of year	$(120,334,217)	$ (59,648,480)

The accompanying notes to statutory financial statements are an integral part of these statements.

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY

JOINT UNDERWRITING ASSOCIATION

STATUTORY STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net	$ 431,269,616	$ 265,126,205
Surcharges collected	10,369,412	6,690,814
Investment income received	13,478,251	5,108,648
Refund of catastrophe fund assessment	10,984,759	-
Cash received under SMISI settlement agreement	5,900,000	-
Producer appointment fees collected	137,245	598,550
Losses paid	(177,524,906)	(74,653,906)
Servicing company fees paid	(81,043,383)	(51,269,999)
Producer commissions paid	(41,807,651)	(28,091,238)
Catastrophe fund assessment paid	(56,130,115)	(21,436,373)
Reinsurance contract premium paid	(30,000,000)	-
Reinsurance contract placement fee paid	(1,300,000)	-
Loss adjustment expenses paid	(5,912,110)	-
Other underwriting expenses paid	(7,765,708)	(5,167,843)
Other processing fees paid	(4,759,512)	(4,168,630)
Surcharges remitted	(7,203,213)	(3,936,288)
Income taxes paid	(583,944)	-
Taxes and fees paid	(556,099)	-
Producer appointment fees remitted	(170,515)	(679,330)
Other, net	51,827	(47,186)
Net cash and cash equivalents provided by operating activities	57,433,954	88,073,424
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(43,420)	(190,540)
Advance to affiliate	-	(160,000)
Repayment of advance to affiliate	-	160,000
Net cash and cash equivalents used in investing activities	(43,420)	(190,540)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit participation and commitment fees paid	(12,209,875)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,180,659	87,882,884
CASH AND CASH EQUIVALENTS, beginning of year	175,389,170	87,506,286
ASSUMPTION OF FPCJUA CASH AND CASH EQUIVALENTS	20,298,869	-
CASH AND CASH EQUIVALENTS, end of year	$ 240,868,698	$ 175,389,170

The accompanying notes to statutory financial statements are an integral part of these statements.

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY
JOINT UNDERWRITING ASSOCIATION

NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 1995 AND 1994

(1) GENERAL:

The Florida Residential Property and Casualty Joint Underwriting Association (the "FRPCJUA") was legislatively established on January 21, 1993, pursuant to Florida Statutes Code Section 627.351(6), to provide certain residential property and casualty insurance coverage to qualified risks in the State of Florida under circumstances specified in the statute. Residential property and casualty coverage consists of the types of coverage provided to homeowner's, mobile homeowners, dwelling, tenant's, condominium unit owners, and similar policies ("Residential Lines").

The Association operates under the supervision and approval of a board of governors consisting of consumer representatives appointed by the Florida Insurance Commissioner and insurance industry representatives designated by the insurance industry and appointed by the Florida Insurance Commissioner.

On June 14, 1995, legislation was enacted whereby all obligations, rights, assets, and liabilities of the Florida Property and Casualty Joint Underwriting Association (the "FPCJUA") that relate to residential commercial coverage would be transferred to the FRPCJUA. The FRPCJUA's enabling statute was modified to enable the FRPCJUA to underwrite the risks transferred from the FPCJUA, which consist of the types of coverage provided to condominium associations, apartment buildings and similar policies ("Commercial Lines").

The accompanying 1995 statutory financial statements include the financial position and results of operations and cash flows of the residential commercial coverage transferred from the FPCJUA from June 15, 1995 through December 31, 1995. The accompanying 1994 statutory financial statements do not include the financial position or the results of operations and cash flows of the FPCJUA. The cumulative surplus of the FPCJUA as of June 15, 1995, insofar as it relates to residential commercial coverage, is included in "unassigned deficit" in the accompanying statutory statements of admitted assets, liabilities and unassigned deficit. The Residential Lines and Commercial Lines records are maintained separately. The combined Residential Lines and Commercial Lines are referred to as the "Association."

The Association's enabling statute and the Association's Plan of Operations (the "Plan") require all insurers authorized to write residential insurance in the State of Florida to participate in and be members of the Association. The Association is authorized to assess its members, subject to the approval of the Insurance Department of the State of Florida (the "Department"), amounts necessary to sustain operations. Assessments, if any, are based on the Association's losses and expenses constituting a deficit and levied on the Association's members according to each member's direct written premiums for residential property in Florida during the preceding calendar year as compared to the aggregate direct written premiums for all members of the Association during the preceding calendar year (see Note 21(c)). Assessments are made separately for Residential Lines and Commercial Lines.

The Association is exempt, by statute, from State of Florida corporate income taxes and intangible taxes.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying statutory financial statements have been prepared in accordance with statutory accounting practices ("SAP") prescribed or permitted by the Department, which is a comprehensive basis of accounting other than generally accepted accounting principles ("GAAP"). These practices differ from GAAP as follows:

- Acquisition costs incurred in connection with acquiring new business, such as commissions, certain servicing company fees, contract management fees and other costs of acquiring, renewing and servicing the business are charged to operations as incurred rather than deferred and amortized over the policy term.

- Certain assets are defined by the National Association of Insurance Commissioners ("NAIC") and the Department as "nonadmitted," principally furniture and equipment, leasehold improvements, computer software and amounts in the course of collection more than 90 days past due. The net change in such nonadmitted assets during the year is charged or credited directly to unassigned deficit.

- Income taxes are provided at the statutory rates. No provision for deferred income taxes is made under SAP.

- Salvage and subrogation are recorded when received.

The more significant statutory accounting practices employed by the Association are as follows:

(a) Short-Term Investments-

Short-term investments are recorded at admitted asset values, as prescribed by the NAIC's valuation procedures. As of December 31, 1995 and 1994, short-term investments, which are carried at cost, consist of amounts invested in the State of Florida, Office of the Treasurer's Special Purpose Investment Trust Account. This account consists of pooled funds invested by the Treasurer of the State of Florida under the guidelines provided by Section 18.10 of the Florida Statutes.

(b) Electronic Data Processing Equipment-

Depreciation of electronic data processing equipment is computed using the straight-line method over the equipment's estimated useful life of three years. Depreciation expense amounted to $84,198 and $89,774 for the years ended December 31, 1995 and 1994, respectively.

(c) Loss Reserves-

Liabilities for loss reserves as of December 31, 1995 and 1994, including reported losses of $48,349,980 and $33,554,705, respectively, and incurred but not reported losses ("IBNR") of $40,124,000 and $25,245,367, respectively, are based on claims adjusters' evaluations and on actuarial evaluations, respectively, using the Association's current loss experience and industry statistics. As of December 31, 1995, the Association does not have sufficient historical experience on which to actuarially support its estimate of reserves for IBNR. While the ultimate amount of losses incurred is dependent on future developments, in management's opinion, these reserves are adequate to cover the future payment of losses. However, no assurance can be given that the ultimate settlement of losses may not vary significantly from the reserves provided. Adjustments, if any, to estimates recorded resulting from subsequent actuarial evaluations or ultimate payments will be reflected in operations in the period in which such adjustments are known or estimable. The Association does not discount liabilities for loss reserves.

(4) LIABILITY FOR LOSS RESERVES AND DRAFTS OUTSTANDING:

Activity in the liability for loss reserves and drafts outstanding for the year ended December 31, 1995 and 1994 is as follows:

	1995	1994
Loss reserves and drafts outstanding, beginning of year	$ 71,806,639	$ 17,568,729
Assumption of FPCJUA loss reserves and drafts outstanding	2,683,948	-
Incurred related to:		
Current year	197,425,779	121,158,307
Prior years	4,614,546	7,733,509
Total incurred	202,040,325	128,891,816
Paid related to:		
Current year	114,880,622	60,469,664
Prior years	62,644,284	14,184,242
Total paid	177,524,906	74,653,906
Loss reserves and drafts outstanding, end of year	$ 99,006,006	$ 71,806,639

(5) PRODUCER COMMISSIONS AND SERVICING COMPANY FEES:

The Association has contracted with various licensed producers in the State of Florida. These agreements provide for commissions to the producers at rates set forth in approved Association rate filings and are calculated as a percentage of net direct written premiums, net of certain surcharges.

The Association has entered into servicing agreements with several companies to provide the Association with, among other services, underwriting, policy management and issuance, and claims adjusting services. The servicing agreements provide for compensation to the companies based upon contracted rates calculated as a percent of net direct written premiums, earned premiums or number of claims processed (see Notes 11 and 21(b)).

Included in "Servicing company fees due and accrued" in the accompanying statutory statements of admitted assets, liabilities and unassigned deficit is $4,499,893 and $5,207,407 as of December 31, 1995 and 1994, respectively, due to Shared Market Insurance Services, Inc. ("SMISI"), a related entity (see Note 11).

(6) FEES AND SURCHARGES:

Fees and surcharges are collected by the Association on behalf of the Department or the respective entities and consist of producer appointment fees, Florida Insurance Guaranty Association ("FIGA"), Emergency Management Preparedness Association ("EMPA"), and Fire College Trust Fund ("FCTF") surcharges paid by the insureds. Producer appointment fees represent a $60 annual fee paid by producers in the State of Florida in order to be authorized to write business for the Association. FIGA surcharges represent an annual assessment paid to FIGA not to exceed 2% of the Association's net direct written premiums. EMPA surcharges represent two dollars for each application submitted to the Association for Residential Lines policies and four dollars for each application submitted for Commercial Lines policies. FCTF surcharges are based on .1% of the Commercial Lines net direct written premiums.

(d) Premiums-

Premiums are recorded as earned on a daily pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the period is recorded as unearned premiums. Acquisition costs, including commissions and certain servicing company fees are charged to operations as incurred.

(e) Member Assessments-

Assessments made to members of the Association pursuant to the enabling statute and the Plan are recognized as revenue in the period approved by the Board of Governors and the Department.

(f) Reinsurance-

Premiums ceded under reinsurance contracts are recorded as a reduction of earned premiums over the contract period. Estimated reinsurance recoverables on unpaid losses are recorded as a reduction of losses incurred and loss adjustment expenses. Reinsurance recoverables on paid losses are recorded as receivables.

All payments to the Florida Hurricane Catastrophe Fund are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payment applies (see Note 14).

Assumed premiums, losses incurred and loss reserves are recorded at their respective assumed amounts.

(g) Use of Estimates in the Preparation of Financial Statements-

The preparation of the financial statements in accordance with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Statements of Cash Flows-

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less when purchased. All short-term investments made with the State of Florida, Office of Treasurer are considered to be cash equivalents.

(i) Reclassifications-

Certain prior year balances have been reclassified in order to conform with current year's presentation.

(3) PREMIUMS RECEIVABLE:

Included in "Premiums receivable" for Residential Lines are amounts due under the Association's installment plan (the "Installment Plan") whereby an insured is required to pay a minimum of 50% of the policy premium upon binding of the policy and the balance within 60 days of the policy effective date.

Premiums receivable for Commercial Lines include amounts due under a consumer payment plan (the "Financing Plan"). Under the Financing Plan, an insured may remit 30% of the total premium amount due and pay the balance in eight equal monthly installments. The interest rate charged is 5% over the average State of Florida monthly treasury earnings rate for the preceding calendar quarter, which is adjusted quarterly.

(11) SETTLEMENT AGREEMENT:

During 1994, the Association contracted with SMISI to provide certain services related to residential property and casualty insurance written by the Association and to provide certain administrative services to the Association. Effective December 27, 1995, the Association and SMISI entered into a settlement agreement (the "Settlement Agreement") in which SMISI agreed to pay, transfer, convey, or assign to the Association all cash and property specifically identified within the Settlement Agreement in full payment and satisfaction of any and all claims and certain obligations arising under these agreements. Included in "Other income" in the accompanying 1995 statutory statement of operations is approximately $4.2 million resulting from the net amounts transferred under the Settlement Agreement.

As of December 27, 1995, the FRPCJUA had terminated its service provider contracts with SMISI and now has contracts with PMSC and other companies to provide the Association with, among other services, underwriting, policy management and issuance, and claims adjusting services. The contracts provide for compensation to the companies based upon contracted rates calculated as a percent of net direct written premiums, earned premiums or number of claims processed.

(12) INCOME TAXES:

The Association has no federal income tax liability for the years ended December 31, 1995 or 1994. Accordingly, no provision for income taxes has been recorded in the accompanying statutory statements of operations. At December 31, 1995, the Association has net operating loss carryforwards for Federal income tax purposes of approximately $57,000,000 which expire at various dates through 2010.

(13) REINSURANCE AGREEMENTS:

On September 6, 1995, the Association entered into an excess of loss reinsurance contract with an insurance company (the "Reinsurer"). During 1995, the Association paid to the Reinsurer a $30 million premium, which is included in "Net written premiums" in the accompanying statutory statement of operations. The contract expires on May 31, 1996 and as of December 31, 1995, $12,857,143 has been amortized. The remaining $17,142,857 has been amortized over the remaining contract term in 1996. The Association paid a $1.3 million fee, included in "Other underwriting expenses" in the accompanying 1995 statutory statement of operations, to a reinsurance intermediary to secure the reinsurance.

In accordance with the contract, the Reinsurer would pay to the Association up to $300 million if the Association incurs losses, net of recoveries, in excess of $1.175 billion. To qualify for the reinsurance, the Association must have incurred at least $300 million in cumulative losses in conjunction with two separate windstorm disasters as identified by the Property Claims Services division of the American Insurance Services Group, Inc. Catastrophe fund reimbursements are excluded from recoveries. No such amounts have been reimbursed to the Association through the contract expiration date.

During 1993, the Association entered into an agreement with a group of insurance companies to reinsure the companies' Florida residential property book of business for $12,521,000. The agreement is effective from January 1, 1994 through the runoff of the companies' policies in force at December 31, 1993. The Association has agreed to pay all losses, including incurred but not reported losses, and loss adjustment expenses associated with these policies as well as those that were required to be renewed by law or regulation in 1994. At December 31, 1995 and 1994, loss reserves relating to the assumed business totaled $182,268 and $579,152, respectively. Premiums earned, including policies that were required to be renewed by law or regulation, totaled $443,259 and $18,034,634 for the years ended December 31, 1995 and 1994, respectively.

(7) TAXES AND FEES DUE AND ACCRUED:

Effective June 14, 1995, the FRPCJUA became subject to the State of Florida premium tax, the municipal police officers' retirement trust fund excise tax, the firefighters' pension trust fund excise tax and the State Fire Marshal regulatory assessment. The FPCJUA was subject to all of these taxes, with the exception of the municipal police officers' retirement trust fund excise tax, from its inception. Amounts included in "Taxes and fees due and accrued" in the accompanying statement of admitted assets, liabilities and unassigned deficit represent amounts incurred by the Residential Lines from June 15, 1995 through December 31, 1995 and by the Commercial Lines for the year ended December 31, 1995.

(8) UNASSIGNED DEFICIT:

As recognized by the Department pursuant to Florida Statutes Section 627.351(6), the Association has been exempted from the minimum capital and surplus maintenance requirements of the State of Florida. Additionally, the Association is not required to maintain deposits with the State of Florida to secure the payment of claims.

(9) LOSS ADJUSTMENT EXPENSES:

As discussed in Note 5, the Association has entered into servicing agreements with several companies to provide services to the Association including, among other services, claims adjusting services. Pursuant to these agreements, the servicing companies are reimbursed for loss adjustment expenses incurred as a result of designated catastrophic events or for unusual expenses approved by the Board of Governors resulting from handling a unique claim or loss. (See Note 21(b).) The servicing companies are responsible for recurring loss adjustment expenses. During 1995 and 1994, the servicing companies incurred such reimbursable loss adjustment expenses which are included in "Loss adjustment expenses" in the accompanying statutory statements of operations. In the opinion of management, any additional liability that may ultimately result from such unusual loss adjustment expenses will not have a material adverse effect on the financial position or results of operations of the Association.

Included in "Accrued loss adjustment expenses" in the accompanying statutory statements of admitted assets, liabilities and unassigned deficit is $1,349,087 and $1,025,067 due to SMISI (see Note 11) for loss adjustment expenses as of December 31, 1995 and 1994, respectively. Such 1995 amounts were paid to SMISI subsequent to December 31, 1995.

(10) OTHER PROCESSING FEES:

During 1994, the Association extended the systems administrator agreement (the "Agreement") with Policy Management Systems Corporation ("PMSC") for a period of five years effective November 21, 1994. In accordance with the Agreement, PMSC is to provide a centralized data repository relating to the authorized lines of business generated by the Association's servicing companies. In consideration, during the first year (the "Base" year) of the Agreement which extended through September 1994, the Association paid PMSC a monthly administrative fee ranging between 1.06% and 1.48% based on the level of direct written premiums for that year. For each year thereafter, the Association is to pay PMSC a per policy administrative fee ranging between 1.06% and 1.48% based on the average policy premium as determined during the Base year of the Agreement, adjusted annually for increases in the consumer price index.

Additionally, PMSC developed a catastrophe management system (the "CatMan" system) that enables the Association to evaluate risk exposure of in-force policies based on geographic location and line-of-business. In consideration, the Association pays PMSC $1,500 per month for maintenance of the system. In accordance with the Agreement, the Association has the option to terminate any or all services then being provided by PMSC by paying the penalties stated in such Agreement. Systems administrator fees for the years ended December 31, 1995 and 1994 totaled $5,663,493 and $4,044,264, respectively, and are included in "Other processing fees" in the accompanying statutory statements of operations.

(14) FLORIDA HURRICANE CATASTROPHE FUND:

The Association is subject to the Catastrophe Fund assessment under Florida Statutes Section 215.555. Pursuant to this statute, the Florida Hurricane Catastrophe Fund (the "Fund") will reimburse the Association a specified percentage of losses incurred relating to a hurricane in Florida. Premiums paid to the Fund during 1995 and 1994 were $45,145,356 (net of a $10,984,759 refund) and $21,436,373, respectively, and are included in "Net written premiums" in the accompanying statutory statements of operations.

(15) RETIREMENT PLAN:

On April 12, 1995, the Board of Governors approved the implementation and creation of a deferred employee savings plan (the "Savings Plan"). The Savings Plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating eligible employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. The Company matches 100% of each employee's contributions, up to a maximum of 8% of the employee's pretax earnings. The Company's matching contributions to the Savings Plan were $52,667 for the period ended December 31, 1995, and are included in "Other underwriting expenses" in the accompanying statutory statement of operations.

(16) OTHER RELATED-PARTY TRANSACTIONS:

During 1995, SMISI provided certain administrative services to the Association. Included in "Due to affiliates" in the accompanying 1995 statutory statement of admitted assets, liabilities and unassigned deficit is $483,494 due to SMISI related to services provided.

Included in "Due to affiliates" in the accompanying 1995 statutory statement of admitted assets, liabilities and unassigned deficit is $151,399 representing certain expenses paid by SMISI on behalf of the Association.

During 1995, the Association subleased a portion of office space on a month-to-month basis from SMISI. Rent expense associated with this lease was $83,730 for the year ended December 31, 1995. During 1994, the Association utilized the space at no cost.

SMISI has been contracted by the Association to establish and manage the Commercial Lines Financing Plan. Twice a month, SMISI remits to the Association all premium amounts collected plus the total finance rate collected minus the portion that is retained by SMISI as compensation. SMISI also retains any delinquency and collection charges for late payments as compensation. At December 31, 1995, $477,781, representing installments due under the Financing Plan, have been collected by SMISI but have not yet been remitted to the Association and are reflected as "Due from affiliates" in the accompanying statutory statement of admitted assets, liabilities and unassigned deficit. Such amounts have been reimbursed to the Association subsequent to December 31, 1995.

During 1994, the Association paid certain expenses on behalf of the FPCJUA, of which $64,000 is included in "Due from affiliates" and $36,360 has been charged to unassigned deficit as a nonadmitted asset in the accompanying 1994 statutory statement of changes in unassigned deficit.

Additionally, "Due to affiliates" in the accompanying 1994 statutory statement of admitted assets, liabilities and unassigned deficit includes $21,233 due to SMISI for expenses paid by SMISI on behalf of the Association, $192,107 due to the FWCJUA for advances to the Association by the FWCJUA and $367,308 due to the FPCJUA for expenses paid by the FPCJUA on behalf of the Association relating to the assumed FPCJUA book of business.

During 1994, the Association advanced $160,000 to the FPCJUA for working capital purposes which was repaid in 1994, including interest of $2,124.

(17) DEPOPULATION:

Florida Statutes Section 627.3511 was created to reduce the number of policies in the Association by providing incentives to insurers to assume policies from the Association. Accordingly, in September 1995, the Association entered into a contract with an insurance company, licensed in the State of Florida, to remove approximately 100,000 policies from the Association for at least a three year period. The agreement provides for a policy "takeout bonus" of up to $100 per policy to be paid to the insurance company at the end of the three year period. The first of such policies was removed from the Association in 1996. Subsequent to this contract, the Board of Governors and the Department approved two similar contracts with other licensed insurance companies to remove approximately 75,000 more policies from the Association.

Pursuant to Florida Statutes Section 627.351(6)(g), during 1995, the Association held an "open house" for insurance companies to submit proposals to remove policies from the Association. The open house period to submit proposals ended on January 31, 1996. As a result of the open house, subsequent to December 31, 1995, the Association has entered into contracts with seven licensed insurance companies to remove approximately 70,000 more policies from the Association and is continuing to negotiate proposals with other insurance companies. These contracts provide for a credit against member assessments (see Note 1) for the policies removed from the Association.

(18) OPERATING LEASES:

The Association leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $169,068 and $41,576 for the years ended December 31, 1995 and 1994, respectively. At December 31, 1995, future minimum payments under noncancelable operating leases are as follows:

Year Ending December 31,	
1996	$ 75,804
1997	18,594
	$ 94,398

In the event the Association is deactivated or ceases to exist, the Association has the option to terminate the office lease giving six months notice, provided the Association pays the remaining six months lease payments and an additional payment of $40,000.

(19) COMMITMENTS AND CONTINGENCIES:

The Association is a defendant in certain legal proceedings arising out of the conduct of the Association's business, principally from claims made under insurance policies. These actions are considered by the Association in estimating liabilities for loss reserves. In the opinion of management, the ultimate outcome of these legal proceedings will not have a material adverse effect on the Association's financial position or results of operations.

In September 1995, the Association entered into a $1.5 billion credit agreement (the "Line of Credit") with a syndication of banks. The Line of Credit is available from September 6, 1995 through March 7, 1998 and is secured by the Association's member assessments, surcharges and Catastrophe Fund reimbursements. In order to secure the Line of Credit, the Association was required to pay an initial participation fee to the syndication of banks. Through the expiration of the Line of Credit, the Association is required to pay an annual commitment fee of .45% of the daily amount by which the aggregate amount of the commitment exceeds the outstanding principal amount of the loan. As of June 7, 1996, no amounts had been borrowed under the Line of Credit. (See Note 21(e)).

The Association has entered into employment agreements with two executives for a period of two years, expiring in August 1996. The agreements provide for minimum combined compensation to the employees of $145,000 per year.

(20) RECONCILIATION OF SAP TO GAAP:

Reconciliation of the Association's 1995 statutory basis net loss and unassigned deficit to its GAAP basis net loss and unassigned deficit is as follows:

Net loss - Statutory basis	$ (60,005,746)
Adjustments:	
Depreciation and amortization of nonadmitted assets	(58,379)
Deferred policy acquisition costs-	
Producer and servicing company fees	23,719,676
Contract management fee	(62,000)
Line of credit fee	10,252,858
Reinsurance contract acquisition fee	742,859
Taxes and fees	3,084,682
Benefit from deferred income taxes	650,430
Net loss - GAAP basis	$ (21,675,620)
Unassigned deficit - Statutory basis	$ (120,334,217)
Adjustments:	
Nonadmitted assets, net	2,858,223
Producer and servicing company fees	68,214,795
Line of credit fee	10,252,858
Reinsurance contract acquisition fee	742,859
Taxes and fees	3,357,236
Unassigned deficit - GAAP basis	$ (34,908,246)

(21) SUBSEQUENT EVENTS:

(a) In 1996, the Association and four individual employees were named as defendants in a lawsuit filed by an insurance company alleging violation of Federal Anti-trust laws. The insurance company alleges that the Association utilized an unfair method to select its service providers and is seeking to be reinstated as a service provider and two years lost profits as damages. In the event of an unfavorable outcome, the Association can be liable for treble damages and will also be responsible to indemnify its employees. Although management believes this lawsuit is without merit, if determined adversely against the Association, the lawsuit could have a material adverse effect on the Association's financial position and results of operations.

(b) During 1996, contracts with five of the Association's service providers expired. To replace these providers, the Association entered into servicing agreements with three companies to provide to the Association, among other services, underwriting, policy management and issuance, commission payment and claims adjusting services. The agreements provide for monthly compensation to the companies ranging from 16.5% to 17.9% of net direct written premium excluding certain rate increases. The percentage paid is determined based upon the individual provider's number of policies in force on the last day of the respective month. Although these contracts provide for additional amounts to be paid in conjunction with a designated catastrophic event, the contracts do not provide a provision for the companies to petition the Board of Governors to be reimbursed for unusual expenses resulting from handling any other unique claim or loss. The agreements are effective April 1, 1996 and terminate March 31, 1998.

(c) On January 18, 1996, the Board of Governors approved a member assessment of the Residential Lines totaling $17,707,775, The Department subsequently approved the assessment which will be recorded as income in 1996.

(d) On May 9, 1996, the Board of Governors approved the relocation of the Association's corporate offices from Sarasota, Florida to Tallahassee, Florida. In the opinion of management, the Association has no material contingent liabilities related to the relocation.

(e) On June 18, 1996, Morgan Guaranty Trust Company of New York ("Morgan"), administrative agent for the Association's Line of Credit, notified the Association of an event of default pursuant to Article VI, section 6.01(s) of the Credit Agreement. Section 6.01(s) provides, among other provisions, that there shall be no change in law that will materially and adversely affect the Business or Transaction Standards of the Credit Facility. As part of the most recent legislative session, a bill was passed by the Florida legislature creating special purpose insurance companies. These companies are allowed to take out policies from the Association, but they are not members of the Association and are statutorily exempt from any member or policyholder assessments.

On July 16, 1996, the Insurance Commissioner entered an order setting forth that special purpose business constituted an impairment to the Association's Line of Credit and would be detrimental to both the voluntary and involuntary insurance industry in the State of Florida. The Commissioner's order states that the Department of Insurance will not permit special purpose insurance companies to effectuate coverage prior to January 1, 1998 unless certain conditions are met.

On July 17, 1996, the Association agreed to amend its availability period of the line of credit to terminate on December 31, 1997. This amendment helps to limit the bank participant's concerns about the effect of the enacted legislation to deficits occurring in 1997 or earlier.

In the opinion of the Association's management, the Insurance Commissioner's order will cure the default and the Association's ability to borrow against the Line of Credit will not be impaired. Morgan has issued a letter, dated July 17, 1996, requesting approval from the banks participating in the line of credit indicating that Morgan believes the event of default has been cured based upon the actions taken by the Insurance Commissioner and the Association.

The Insurance Commissioner's order is subject to appeal for a period of 30 days from the time the order is entered.

(f) On June 18, 1996, the Board of Governors approved the execution of a promissory note from SMISI of $1,109,045. The loan will bear interest at the rate of interest determined under Section 7872(f)(2) of the Internal Revenue Code. Principal and interest will be payable on demand. The loan will be collateralized by any income tax refunds to be received by SMISI as well as the accounts receivable from the FWCJUA.

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY
JOINT UNDERWRITING ASSOCIATION

SUPPLEMENTARY SCHEDULE OF ADMITTED ASSETS, LIABILITIES AND UNASSIGNED DEFICIT BY LINE OF BUSINESS

DECEMBER 31, 1995

ADMITTED ASSETS	Residential Lines	Commercial Lines	Eliminations	Total
CASH AND CASH EQUIVALENTS:				
Cash on hand and on deposit	$ 1,448,575	$ 838,080	$ -	$ 2,286,655
Short-term investments	215,022,027	23,560,016	-	238,582,043
Total cash and cash equivalents	216,470,602	24,398,096	-	240,868,698
PREMIUMS RECEIVABLE	3,358,497	1,967,296	-	5,325,793
INVESTMENT INCOME DUE AND ACCRUED	1,070,182	120,961	-	1,191,143
ELECTRONIC DATA PROCESSING EQUIPMENT, NET	1,031,766	-	-	1,031,766
DUE FROM AFFILIATES	10,394,833	930,030	(10,847,082)(a)	477,781
OTHER ASSETS	915,552	329,795	-	1,245,347
Total admitted assets	$ 233,241,432	$ 27,746,178	$ (10,847,082)	$ 250,140,528
LIABILITIES AND UNASSIGNED DEFICIT				
LIABILITIES:				
Loss reserves	$ 86,402,400	$ 2,071,580	$ -	$ 88,473,980
Accrued loss adjustment expenses	1,120,677	-	-	1,120,677
Unearned premiums, net	208,506,825	12,572,251	-	221,079,076
Advance premiums	8,361,596	35,071	-	8,396,667
Premium refunds due	2,764,762	569,894	-	3,334,656
Drafts outstanding	10,500,834	31,192	-	10,532,026
Producer commissions due and accrued	3,737,593	71,189	-	3,808,782
Servicing company fees due and accrued	11,775,172	795,489	-	12,570,661
Fees and surcharges due and accrued	7,831,100	1,111,291	-	8,942,391
Accounts payable and accrued expenses	5,239,356	433,894	-	5,673,250
Taxes and fees due and accrued	5,652,534	255,149	-	5,907,683
Due to affiliates	619,195	10,862,783	(10,847,082)(a)	634,896
Total liabilities	352,512,044	28,809,783	-	370,474,745
UNASSIGNED DEFICIT	(119,270,612)	(1,063,605)	-	(120,334,217)
Total liabilities and unassigned deficit	$ 233,241,432	$ 27,746,178	$ (10,847,082)	$ 250,140,528

(a) Represents expenses paid by Residential Lines on behalf of Commercial Lines as follows:

Reinsurance contract premium	$ 5,053,920	(1)
Line of credit fees	2,345,621	(1)
Catastrophe fund assessment	2,641,529	(2)
Income tax provision	393,416	
Other, net	412,596	(3)
	$10,847,082	

(1) Allocated based upon relative exposure of each line of business in the State of Florida as of December 31, 1995

(2) Calculated by the Florida Hurricane Catastrophe Fund

(3) Allocated based upon an administrative agreement, contracted between the FRPCJUA and the FPCJUA, whereby 15% of all general administrative costs are allocated to the Commercial Lines

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY JOINT UNDERWRITING ASSOCIATION

SUPPLEMENTARY SCHEDULE OF OPERATIONS BY LINE OF BUSINESS FOR THE YEAR ENDED DECEMBER 31, 1995

	Residential Lines	Commercial Lines	Eliminations	Total
UNDERWRITING INCOME:				
Net written premiums	$ 344,369,359	$ 7,475,377	$ -	$ 351,844,736
Less - Change in unearned premiums, net	(70,256,086)	(474,599)	-	(70,730,685)
	274,113,273	7,000,778	-	281,114,051
UNDERWRITING EXPENSES:				
Losses incurred	201,695,239	345,086	-	202,040,325
Servicing company fees	74,731,872	2,809,701	-	77,541,573
Producer commissions	39,639,532	2,184,706	-	41,824,238
Loss adjustment expenses	5,032,785	-	-	5,032,785
Line of credit fees	11,589,254	2,345,621	-	13,934,875
Taxes and fees	5,281,330	371,384	-	5,652,714
Other underwriting expenses	6,371,966	1,318,780	-	7,690,746
Other processing fees	5,663,493	- (b)	-	5,663,493
Total underwriting expenses	350,005,471	9,375,278	-	359,380,749
Net underwriting loss	(75,892,198)	(2,374,500)	-	(78,266,698)
NET INVESTMENT INCOME	12,213,402	765,925	-	12,979,327
OTHER INCOME	4,769,654	511,971	-	5,281,625
Loss before benefit (provision) for income taxes	(58,909,142)	(1,096,604)	-	(60,005,746)
BENEFIT (PROVISION) FOR INCOME TAXES	393,416 (a)	(393,416) (a)	-	-
Net loss	$ (58,515,726)	$ (1,490,020)	$ -	$ (60,005,746)

(a) The Commercial Lines would be in a Federal income tax payable position as of December 31, 1995; however, the Residential Lines utilizes a portion of its net operating loss carryforwards to offset any Federal income tax payable on a combined basis.

(b) Other processing fees are included in servicing company fees for the Commercial Lines.

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY JOINT UNDERWRITING ASSOCIATION

SUPPLEMENTARY SCHEDULE OF CHANGES IN UNASSIGNED DEFICIT BY LINE OF BUSINESS

FOR THE YEAR ENDED DECEMBER 31, 1995

	Residential Lines	Commercial Lines	Eliminations	Total
BALANCE, beginning of year	$ (59,648,480)	$ -	$ -	$ (59,648,480)
Assumption of FPCJUA accumulated surplus	-	546,575	-	546,575
Net loss	(58,515,726)	(1,490,020)	-	(60,005,746)
Increase in nonadmitted assets	(1,106,406)	(120,160)	-	(1,226,566)
BALANCE, end of year	$ (119,270,612)	$ (1,063,605)	$ -	$(120,334,217)

FLORIDA RESIDENTIAL PROPERTY AND CASUALTY JOINT UNDERWRITING ASSOCIATION

SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF STATUTORY DEFICIT TO GAAP DEFICIT BY LINE OF BUSINESS

DECEMBER 31, 1995

	Residential Lines	Commercial Lines	Eliminations	Total
Net loss - Statutory basis	$ (58,515,726)	$ (1,490,020)	$ -	$ (60,005,746)
Adjustments:				
Depreciation and amortization of nonadmitted assets	(58,379)	-	-	(58,379)
Deferred policy acquisition costs-				
Producer and servicing company fees	23,429,542	290,134	-	23,719,676
Contract management fee	(62,000)	-	-	(62,000)
Line of credit fee	8,525,620	1,727,238	-	10,252,858
Reinsurance contract acquisition fee	617,714	125,145	-	742,859
Taxes and fees	3,140,641	(55,959)	-	3,084,682
Benefit from deferred income taxes	91,289	559,141	-	650,430
Net (loss) income - GAAP basis	$ (22,831,299)	$ 1,155,679	$ -	$ (21,675,620)
Unassigned deficit - Statutory basis	$ (119,270,612)	$ (1,063,605)	$ -	$ (120,334,217)
Adjustments:				
Nonadmitted assets, net	2,556,914	301,309	-	2,858,223
Producer and servicing company fees	63,799,360	4,415,435	-	68,214,795
Line of credit fee	8,525,620	1,727,238	-	10,252,858
Reinsurance contract acquisition fee	617,714	125,145	-	742,859
Taxes and fees	3,140,641	216,595	-	3,357,236
Net deferred tax asset (liability)	91,289	(91,289)	-	-
Unassigned (deficit) surplus - GAAP Basis	$ (40,539,074)	$ 5,630,828	$ -	$ (34,908,246)

Appendix III: Florida Windstorm Underwriting Association (FWUA) 1995 audited financial statement

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

Statutory Financial Statements and Supplemental Schedules for the Year Ended December 31, 1995 and Independent Auditors' Report

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Florida Windstorm Underwriting Association
Jacksonville, Florida

We have audited the accompanying statutory statement of admitted assets, liabilities and members' surplus of Florida Windstorm Underwriting Association (the "Association") as of December 31, 1995, and the related statutory statements of operations and changes in members' surplus and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the State of Florida Insurance Department, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, such financial statements present fairly, in all material respects, the admitted assets, liabilities and members' surplus of the Association as of December 31, 1995, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of income and expenses by Association year are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental schedules and note have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and management and member companies of the Association and the Insurance Department of the State of Florida and should not be used for any other purpose.

Deloitte & Touche

May 28, 1996

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

STATUTORY STATEMENT OF ADMITTED ASSETS, LIABILITIES AND MEMBERS' SURPLUS DECEMBER 31, 1995

ADMITTED ASSETS

CASH AND SHORT-TERM INVESTMENTS		$ 97,049,374
INVESTMENTS (at amortized cost, fair value of $4,589,795)		4,528,968
ASSESSMENTS RECEIVABLE		1,108,576
ELECTRONIC DATA PROCESSING EQUIPMENT (at cost, less accumulated depreciation of $1,110,851)		534,364
OTHER ASSETS		140,837
TOTAL ADMITTED ASSETS		$103,362,119

LIABILITIES AND MEMBERS' SURPLUS

RESERVES:		
Losses	$ 51,944,162	
Loss adjustment expenses	3,336,725	
Unearned premiums	44,468,811	
Total reserves		99,749,698
DUE TO BROKER		1,802,250
ACCOUNTS PAYABLE AND OTHER LIABILITIES		557,668
Total liabilities		102,109,616
COMMITMENTS AND CONTINGENCIES (Notes 5 and 7)		
MEMBERS' SURPLUS		1,252,503
TOTAL LIABILITIES AND MEMBERS' SURPLUS		$103,362,119

See notes to statutory financial statements.

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

STATUTORY STATEMENT OF OPERATIONS AND CHANGES IN MEMBERS' SURPLUS
YEAR ENDED DECEMBER 31, 1995

PREMIUMS:	
Premiums earned	$ 64,025,104
Premium surcharge	10,510,673
Reinsurance ceded	(48,939,084)
Net premiums earned	25,596,693
LOSSES AND EXPENSES INCURRED:	
Losses incurred, net of reinsurance	113,977,312
Loss expenses incurred, net of reinsurance	7,559,026
Underwriting and operating expenses	27,294,508
Total losses and expenses incurred	148,830,846
UNDERWRITING LOSS	(123,234,153)
INVESTMENT INCOME	4,246,394
NET LOSS	(118,987,759)
MEMBERS' SURPLUS, BEGINNING OF YEAR	2,413,608
CHANGE IN NON-ADMITTED ASSETS	113,331
DISTRIBUTION OF MEMBER SURPLUS	(2,691,951)
ASSESSMENTS	120,405,274
MEMBERS' SURPLUS, END OF YEAR	$ 1,252,503

See notes to statutory financial statements.

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

STATUTORY STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1995

CASH PROVIDED:	
From underwriting:	
Premiums collected net of reinsurance	$ 34,025,136
Loss and loss adjustment expenses paid	(71,037,677)
Underwriting and operating expenses paid	(27,102,068)
Cash used in underwriting	(64,114,609)
Net investment and other income	4,432,015
Net cash used in operations	(59,682,594)
From investment proceeds and other sources:	
Proceeds from investments sold or matured	6,497,813
Proceeds from member assessments	116,933,131
Other cash provided	220,107
Total cash provided	63,968,457
CASH APPLIED:	
Cost of investments purchased	(1,497,656)
Purchase of property and equipment	(115,938)
Total cash applied	(1,613,594)
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS	62,354,863
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	34,694,511
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 97,049,374

See notes to statutory financial statements.

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

NOTES TO STATUTORY FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Florida Windstorm Underwriting Association (the "Association") was established in accordance with a Florida Statute enacted by the 1970 Regular Session of the Florida Legislature to provide a method whereby adequate windstorm insurance may be provided in lawfully designated areas of Florida.

Basis of Presentation - The accompanying financial statements of the Association have been prepared in conformity with insurance accounting practices prescribed or permitted by the Insurance Department of the State of Florida. These practices differ in certain respects, which in some cases may be material, from generally accepted accounting principles ("GAAP"). The more significant differences are as follows: (1) for statutory purposes, commissions and operating expenses incurred in acquiring business are charged to operations as incurred; (2) certain assets which are non-admitted for statutory purposes are charged to members' surplus; and (3) for statutory purposes, reinsurance premiums under the Association's Agreement of Reinsurance with Shippan International Insurance Company, Ltd. (the "Agreement"), discussed in Note 7, are expensed when the premiums are ceded. For GAAP, the Agreement would follow the guidance of Statement of Accounting Standards No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* ("SFAS 113") and Emerging Issues Task Force Bulletin No. 93-6, *Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises* ("EITF 93-6"). Contracts in which the reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance contracts and under which it is reasonably possible that the reinsurer may realize a significant loss from the transaction are accounted for as reinsurance contracts under SFAS 113. For multiple-year reinsurance contracts which result in obligations based on experience under the contract, EITF 93-6 requires ceding companies to recognize an asset and assuming enterprises to recognize a liability for positive experience under the contract. The Association's Agreement would be accounted for as a reinsurance contract under SFAS 113, because the reinsurer assumed significant insurance risk under the reinsured portion of the underlying insurance contract and it is reasonably possible that the reinsurer may realize a significant loss from the transaction. Based on experience to date under the Agreement, the Association would be required to recognize an asset for the positive fund balance under the Agreement as required by EITF 93-6.

Use of Estimates - The preparation of financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments - Investments are valued in accordance with the procedures adopted by the National Association of Insurance Commissioners. Investments in U.S. Treasury bills, U.S. Treasury notes and U.S. government agency obligations are reported at amortized cost at December 31, 1995. Discounts and premiums are recognized over the life of the related investment using the interest method.

Federal Income Taxes - The Association files partnership information returns and, accordingly, no provision for income taxes is required in the accompanying financial statements. Operating results of the Association are included by the various members in their income tax returns.

Members' Surplus - Each member of the Association participates in the results of the Association's operations in the proportion that such member's net direct property premiums (generally fire and extended coverage) written in the state of Florida (adjusted for net direct windstorm premiums on this line voluntarily written in the designated areas) bear to the aggregate net direct property premiums written in the state by all members for the preceding calendar year.

A limited apportionment status may be elected for participation in the operating results of the Association by certain members whose writing in the state, as defined, aggregate twenty-five percent of their annual property premium volume and whose policyholders' surplus is $20,000,000 or less.

Recognition of Premium Revenues - Premiums are generally recognized as revenue on a pro rata basis over the policy term.

Reserves - Reserves for unpaid losses and loss adjustment expenses are based on estimates of ultimate settlement costs including both reported and incurred but not reported ("IBNR") losses. IBNR reserves are established on the basis of a reserve formula which provides an amount for isolated (minor) claims reported late, and when applicable, an amount representing possible unreported claims from significant storms which have occurred during the year and in prior years.

Management believes that the reserves for losses at December 31, 1995 are adequate to cover the ultimate net cost of losses and claims to date, but the reserves are necessarily based on estimates, and no representation is made that the amounts ultimately paid may not be more or less than such estimates.

Cash and Short-Term Investments - Cash and short-term investments include cash, money market deposits, and securities with an original maturity of less than or equal to one year.

2. INVESTMENTS

The amortized cost and estimated fair value of investments as of December 31, 1995 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$2,226,718	$43,047		$2,269,765
U.S. government agency obligations	2,302,250	17,780		2,320,030
	$4,528,968	$60,827	$	$4,589,795

The amortized cost and estimated fair value of investments in debt securities at December 31, 1995, by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Due after one year through five years	$ 4,528,968	$ 4,589,795

Proceeds from the sale of investments amounted to $997,813 in 1995. Gross gains of $156 and no losses were realized on these sales.

3. DEFERRED COMPENSATION AND RETIREMENT PLANS

Retirement Plan - The Association has a noncontributory defined benefit pension plan (the "Plan") maintained by the Insurance Company-Supported Organizations Employees' Pension Plan. The benefits are based on years of service and the employee's highest consecutive five years earnings out of the last ten years prior to retirement and vest when an employee attains five years of service. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Based on the most recent actuarial valuation by the Plan's actuaries, the following table sets forth the Plan's funded status and amounts recognized in the Association's financial statements at December 31, 1995.

Actuarial present value of accumulated benefit obligation, including vested benefits of $916,302	$ 970,639
Projected benefit obligation for service rendered to date	$ 1,202,544
Plan assets at fair value	1,202,677
Excess of plan assets over projected benefit obligation	133
Unrecognized transition liability	9,643
Unrecognized net gain	(100,998)
Accrued pension cost	$ (91,222)
Net periodic pension cost for the year ended December 31, 1995:	
Service cost	$ 90,072
Interest cost	80,786
Actual return on plan assets	(84,816)
Amortization of transition liability	9,363
Net periodic pension cost	$ 95,405

The projected unit credit actuarial cost method was used to compute the net periodic pension cost. The weighted-average discount rate and asset rate of return were 7.5% and 8.5%, respectively. No future salary increases are assumed when calculating the vested and accumulated benefit obligation.

Deferred Compensation Plan - The Association sponsors a 401(k) plan for substantially all employees. Contributions to the 401(k) plan totaled $54,570 for 1995.

4. MEMBERS' SURPLUS

Members' surplus is comprised of the cumulative net earnings of the Association which are distributable to members. Association years are comprised of open years, which represent those years for which incurred losses are expected to continue to be reported. As of December 31, 1995, Association years ended December 31, 1995 and 1994 remained open.

5. LEASE COMMITMENTS

The Association leases the building it occupies under a long-term noncancellable lease with an original term of 66 months, with two renewal options of three years and two years. Rent expense is recognized on a straight-line basis over the term of the lease. Rent expense was $460,000 for the year ended December 31, 1995. The future minimum noncancellable lease commitments for this operating lease are as follows:

Year Ending December 31,	
1996	$ 425,000
1997	425,000
1998	425,000
1999	142,000
	$ 1,417,000

6. RESERVE FOR LOSSES AND ADJUSTMENT EXPENSES

Activity in the reserve for losses and loss adjustment expenses for the year ended December 31, 1995 is summarized as follows:

Balance at January 1	$ 3,097,041
Incurred related to:	
Current year	121,495,756
Prior years	(124,973)
Total incurred	121,370,783
Paid related to:	
Current year	66,308,375
Prior years	2,878,562
Total paid	69,186,937
Balance at December 31	$ 55,280,887

7. REINSURANCE AND LINE OF CREDIT

Reinsurance Fund - The Association has entered into an Agreement of Reinsurance (the "Agreement") under which a reserve fund was established by the reinsurer to be funded by the Association. The reinsurer's liability is limited to 90% of the loss in excess of $50,000,000 for the aggregate sum of catastrophe losses paid during any one Association year with a maximum liability equal to the positive balance of the reserve fund plus $12,000,000. Effective April 1, 1995, the Agreement was amended by Endorsement No. 7. Endorsement No. 7 changed the reinsurer's limit of liability to 90% of the ultimate net loss in excess of the Association retention; but not exceeding, with respect to all loss events commencing during each fiscal period of this Agreement, the positive balance of the reserve fund plus $19,000,000.

In addition to the annual premium is an excise tax and a base charge which is equal to the sum of $425,000 plus the greater of $3,600,000 or the amount arrived at by applying a rate of 5.143% to the average monthly inforce premium for the fiscal period. The premium less the base charge and excise tax is used to fund the reserve. Such reserve fund is refundable to the Association only in the event of cancellation of the Agreement by the reinsurer, or by the Association in the event of a significant change in the ownership or control of the reinsurer or its parent, or a determination by a regulatory agency that the Agreement is not in compliance with state or Federal law. The reserve fund totaled approximately $15,800,000 as of December 31, 1995. The Association made a reinsurance premium payment of $10,100,000 for 1995 and recovered $55,317,509 from losses covered under the Agreement.

Catastrophe Fund - The Association participates in the Florida Hurricane Catastrophe Fund (the "Fund"). The Fund, established by Florida Statutes, reimburses the Association for 90% of the aggregate amount of ultimate loss paid by the Association in excess of the Association's aggregate retention of $130,000,000.

Reinsurance premiums ceded to the Fund for the year ended December 31, 1995 were $26,299,842.

Line of Credit - Effective August 24, 1995, the Association entered into a Credit Agreement (the "Agreement") with various lending institutions under which it may borrow up to $1 billion. Interest on the Agreement is LIBOR plus 1%. The Agreement is secured by and repaid through the collection of member assessments. Fees associated with the Agreement were $9,167,000 for the year ended December 31, 1995 and as of December 31, 1995 there were no borrowings under the Agreement.

* * * * * *

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

SUPPLEMENTAL SCHEDULES OF INCEPTION TO DATE INCOME AND EXPENSES

	Total Relating to Association Year				
	1995	1994	1993	1992	1991
PREMIUMS:					
Premiums written	$ 72,594,604	$ 56,963,564	$ 37,218,489	$ 17,792,646	$ 16,446,602
Surcharge premiums	10,510,673	8,254,220	5,428,119	2,606,015	2,382,799
Reinsurance ceded	(36,350,948)	(33,976,256)	(14,418,146)	(9,283,070)	(8,536,499)
Portfolio transfer - unearned premiums:					
From prior Association year	35,483,893	25,440,735	11,355,742	10,090,672	8,587,261
To succeeding Association year	(44,053,393)	(35,483,893)	(25,440,735)	(11,355,742)	(10,090,672)
Net premiums earned	38,184,829	21,198,370	14,143,469	9,850,521	8,789,491
INCURRED LOSSES AND UNDERWRITING EXPENSES:					
Losses (net of reinsurance)	113,662,409	7,543,348	10,131,417	20,712,635	2,757,677
Loss adjustment expense (net of reinsurance)	7,833,347	1,161,387	1,448,629	1,669,008	383,408
Commissions	10,886,482	8,542,368	5,581,456	2,668,675	2,466,719
Operating expenses	16,418,481	7,308,803	4,628,520	1,887,492	1,660,523
Portfolio transfer - acquisition allowance:					
From prior Association year	8,969,153	6,868,998	2,838,936	2,522,668	2,146,815
To succeeding Association year		(8,969,153)	(6,868,998)	(2,838,936)	(2,522,668)
Net incurred losses and underwriting expenses	157,769,872	22,455,751	17,759,960	26,621,542	6,892,474
UNDERWRITING GAIN (LOSS)	(119,585,043)	(1,257,381)	(3,616,491)	(16,771,021)	1,897,017
INVESTMENT INCOME	4,246,392	1,449,747	371,340	610,898	794,934
NET INCOME (LOSS)	(115,338,651)	192,366	(3,245,151)	(16,160,123)	2,691,951
CHANGE IN NON-ADMITTED ASSETS	(601,212)				
DISTRIBUTION TO MEMBERS					(2,691,951)
ASSESSMENTS	117,000,000		3,245,151	16,160,123	
MEMBERS' SURPLUS	$ 1,060,137	$ 192,366	$ -	$ -	$ -

See note to supplemental schedules.

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

SUPPLEMENTAL SCHEDULES OF YEAR TO DATE INCOME AND EXPENSES

	December 31, 1995				
		Relating to Association Year			
	1995	1994	1993	1992	1991
PREMIUMS:					
Premiums written	$ 72,594,604				
Surcharge premiums	10,510,673				
Reinsurance ceded	(36,350,948)	$(12,588,136)			
Change in unearned premium					
Portfolio transfer - unearned premiums:					
From prior Association year	35,483,893				
To succeeding Association year	(44,053,393)				
Net premiums earned	38,184,829	(12,588,136)			
INCURRED LOSSES AND UNDERWRITING EXPENSES:					
Losses (net of reinsurance)	113,662,409	344,115	$ (10,946)	$(18,264)	
Loss adjustment expenses (net of reinsurance)	7,833,347	(270,033)	(1,657)	(3,431)	$ 799
Commissions	10,886,482				
Operating expenses	16,418,481	(10,458)			
Portfolio transfer - acquisition allowance:					
From prior Association year	8,969,153				
To succeeding Association year		(8,969,153)			
Net incurred losses and underwriting expenses	157,769,872	(8,905,529)	(12,603)	(21,695)	799
UNDERWRITING GAIN (LOSS)	(119,585,043)	(3,682,607)	12,603	21,695	(799)
INVESTMENT INCOME	4,246,392				
NET INCOME (LOSS)	(115,338,651)	(3,682,607)	12,603	21,695	(799)
CHANGE IN NON-ADMITTED ASSETS	(601,212)	714,542			
DISTRIBUTION TO MEMBERS					(2,691,951)
ASSESSMENTS	117,000,000		3,245,151	160,123	
CHANGE IN MEMBERS' SURPLUS (DEFICIT)	$ 1,060,137	$ (2,968,065)	$3,257,754	$181,818	$(2,692,750)

See note to supplemental schedules.

FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

NOTE TO SUPPLEMENTAL SCHEDULES

Portfolio Transfer Method - The Association follows the "portfolio transfer" method of accounting in the Association Year financial statements to facilitate the determination of the individual company participation interests on an Association Year basis. Under the "portfolio transfer" technique, (a) unearned premiums as of the end of the Association Year are deemed to be written premiums in the following Association Year, (b) acquisition expenses, principally commissions and a portion of operating expenses, relating to the unearned premiums as of the end of the Association Year are transferred to the subsequent year in the Association Year financial statements and (c) losses are recorded in the Association Year in which the loss occurs.