



**INFORMATIONAL MEMORANDUM  
OIR-06-01M  
ISSUED**

**February 10, 2006**

Florida Office of Insurance Regulation

**Kevin M. McCarty, Commissioner**

**To : ALL PROPERTY AND CASUALTY INSURERS AUTHORIZED TO DO BUSINESS IN FLORIDA**

**Reinsurance Costs in Rate Filings**

Reinsurance costs are likely to increase significantly as a result of recent storm activity. Discussions with insurers in Florida and reinsurance brokers suggest the increases could be as high as one-hundred percent (100%) for coverage at the lower retentions when reinstatements are included. On average, the increases will likely be in the twenty-five to fifty percent range (25%-50%). There are a number of factors contributing to increased reinsurance costs. Some of these are: a perceived increase in exposure by the reinsurer, increased capital costs and recent losses within the reinsurance industry. Improved data on items like demand surge and the potential impact of regulatory actions that could require insurers to pay for losses stemming from what were previously considered to be uncovered perils, may also have some impact on reinsurance costs.

All of these costs are reflective of the increased risk associated with providing reinsurance coverage to insurers writing property coverage in disaster exposed areas and, if justified, will be passed on to the insurance buying consumer through rate increases.

Insurers writing property insurance in Florida are required to participate in the Florida Hurricane Catastrophe Fund (FHCF). The FHCF contract is an annual contract that renews on June 1<sup>st</sup> of each year and provides coverage through May 31<sup>st</sup> of the subsequent year. Many insurers writing property insurance in Florida purchase reinsurance from the private market to correspond to the same time period established within the FHCF contract. As a result many insurers will not purchase reinsurance, or have definitive reinsurance pricing until later this year. Insurers that are currently developing proposed changes to their existing rates are faced with significant uncertainty regarding their expected reinsurance costs for the upcoming hurricane season. This reinsurance cost is one of the most important factors in any rate filing.

Representatives from the Office are continuing to meet with insurers to discuss different approaches for reflecting changing reinsurance costs in rate filings. Insurers are encouraged to contact the Property and Casualty Product Review Unit to set up a meeting to review various options that may be available.

Inquiries should be directed Michael Milnes at (850)-413-5306.