Office of Insurance Regulation

Presentation on the Recommendations of the Task Force on Long-Term Hurricane Solutions

- Pursuant to Senate Bill 1486 from the 2005 Session, the Task Force on Long Term Hurricane Solutions was created.

- The inaugural meeting of the Task Force was on August 24, 2005, the day Katrina developed off Florida's east coast.

- From August, 2005 through February 2006, the Task Force met eight times at various locations around the state to receive informational testimony from experts in the fields of insurance, reinsurance, construction and insurance regulation, and especially to receive public testimony on these important issues.

- The Task Force met over a period of 6 months and issued a final report on March 10, 2006.

- The Task Force members included representatives from the insurance industry, the lending industry, the academic community, the construction industry, an expert in hurricane mitigation, the Insurance Commissioner of the State of Florida and the Insurance Consumer Advocate of the State of Florida.

- Senators, as you know, the 2004 and 2005 hurricane seasons had a devastating impact on the State of Florida with eight hurricanes and four tropical storms, causing approximately $35 billion in estimated gross probable insurance losses. As natural disasters continue to increase in frequency and strength, the threat to the livelihood of the communities of our great state, and the United States as a whole, has become overwhelming and disastrous.

- Because of the absolute size of the economic losses that are possible due to hurricanes in Florida, the private market, public mechanisms, and even the state itself simply do not have sufficient capacity to provide recovery from a truly mega-catastrophic hurricane event. Any long-term solution to the Florida hurricane insurance market should include a rational, comprehensive national catastrophe plan, such as is being currently debated in several arenas. The Task Force strongly recommends that Florida's leadership continue to put forth significant efforts in this area for the sake of the continued sustainability of the Florida economy.

- Cabinet Resolution tomorrow
- SB 1676 by Chairman Garcia
- HB 541 by Chairman Ross

- Since the 2004 hurricane season, Florida insurers have infused approximately $1 billion of new capital into the market. However, given the 2005 hurricane season and projections for future hurricane activity in Florida, it is recognized that without sufficient rate increases and other changes that provide greater pricing certainty in the property insurance marketplace (e.g., mitigation), it is likely that the Florida marketplace will suffer severe limitations on investor resources for continued recapitalization and have future limitations

- Attracting new capital to the Florida market will remain a critical priority for the foreseeable future, based on projections of current and future needs.

- The CAT Fund fulfilled its purpose in the face of the 2004 hurricane season, as well as the 2005 hurricane season. The stability and availability of capital in the CAT Fund has served as the cornerstone for market recovery and as the catalyst for attracting new companies and additional new capital to Florida. However, the combined losses and experience of the 2004-2005 hurricane seasons have strained the cash resources of the CAT Fund, as well as the resources of the voluntary market.

- To maintain and enhance the competitive conditions in the Florida private sector property insurance market, the Task Force recommends:
    - Expanding the Office's monitoring and analysis of market conditions.
    - Authorizing the Office to establish a streamlined rate filing process, publish a reasonable competitive rate of return model for investors, and publish trend factors to be used in rate filings.

- Implementing a streamlined rate filing process that permits insurers to use a manual rate that is actuarially derived for properties valued over $1 million to permit competition with the surplus lines market.
- Ensuring, through the Office's leadership position within the NAIC, that any arbitrary, artificial barriers to competition in the reinsurance market are removed without jeopardizing solvency. State leadership should develop closer working relationships with the global reinsurers.
- Not amending the Florida Statutes to require insurers to write specific lines of business.
  - Linking whether companies are able to write one line of business to being able to write other lines of business may be detrimental to market expansion and create an artificial barrier to capital entering the Florida insurance market.
- Amending Section 631.57(1)(a)2, Florida Statutes regarding FIGA to increase the cap for homeowners' dwelling claims to $500,000.

- Regarding the CAT Fund, the Task Force recommends:
  - Determining the viability of the CAT Fund and whether changes to trigger levels and/or exhaustion points are needed, including a determination of better ways to address multiple event years that would better fulfill the CAT Fund's mission.
  - Building a rapid cash build-up into the CAT Fund's rate structure in order to replenish the cash depleted in 2004 and 2005, which may offset the need for post-storm assessments, albeit after an increase in rates initially.
  - Amending the Florida Constitution to help protect the capital of the CAT Fund so that it is used specifically to pay hurricane claims and related expenses including mitigation funding, which is a statutory requirement (Section 215.555(7)(c), Florida Statutes, that requires the legislature to annually appropriate at least $10 million, not to exceed

35% of the CAT Fund's investment income, for mitigation projects).
    - Exploring other methods for enhancing cash buildup of the CAT Fund.
    - Considering a public policy determination as to whether some of the increased sales tax revenues realized from post-storm recovery should be earmarked for the CAT Fund, mitigation activities, and public infrastructure.

- Regarding Citizens, the Task Force recommends:
    - Amending Citizens' enabling statute to provide that eligibility for coverage with Citizens is limited to those properties with a structural value of less than $1 million
        - This is the case for the PLA account in the Citizens Plan of Operations
    - Continuing to levy a seasonal occupancy surcharge of 5% for the HRA and 10% for PLA policies (for personal residential policies)
    - Citizens continuing to limit coverage offered on mobile homes built prior to 1994 to Actual Cash Value. Citizens determining the feasibility of making available other policies with more restrictive coverage to allow more choices for insurance consumers placed into Citizens.
    - Clarifying the statutory language governing Citizens' ratemaking process to clearly delineate that Citizens use the higher of the "Top 20" requirement and the "actuarially sound" requirement.
    - Amending Section 627.351, F.S., to codify in law the ethics and conflict of interest provisions that were added to the Citizens' Plan of Operations and approved by the Office of Insurance Regulation.
    - Requiring that the rates charged by Citizens include a capital accumulation component so that Citizens will develop a capital base similar to that required of insurers in the voluntary market in order to minimize future assessments.
    - Implementing a pilot project to reduce the risk of loss for Citizens' policyholders with second homes or with

structures valued over $500,000 in the wind borne debris area to make them more marketable in the voluntary market by limiting to a period of three years the amount of time an insured property may remain in Citizens without an additional surcharge if the property could be insured in the private market with additional investment in retrofitting those structures using mitigation hardening techniques.
    - Requiring Citizens to report twice a year on the effectiveness of the recently implemented revision to its take-out program.
    - Citizens continuing to aggressively market its bonus program to encourage depopulation activities in conjunction with the Office.
    - Obtaining statutory clarification to provide clarity in the law that Citizens is authorized to offer a myriad of bonuses approved by the Citizens' Board and the Office.
    - Earmarking the increased sales tax revenues realized from post-storm recovery for Citizens to decrease the likelihood of an assessment.
    - The OIR establishing an ongoing reporting structure highlighting claims-handling performance using metrics similar to those used in the Office's disaster reporting framework, e.g., number of claims filed in a period, number of days to adjust, and settle a claim, using recent audits such as the Auditor General's report, Citizens' internal audit, and the processes of the Office's Market Investigations Unit to establish the framework for reports.

- Regarding the designation of the Windpool area, the Task force recommends:
    - Designing a systematic methodology for establishing Windpool areas.
    - Suspending 2004 statutory changes to the arbitrary Windpool line and not permitting the line to be moved by operation of law.
    - The Task force notes that there is industry opposition to shrinking the Windpool. Some parts of the industry advocate

expansion of the Windpool statewide. However, by removing all other perils from the residual market, it may become very difficult for Citizens to purchase reinsurance and to pay claims.

- Leslie Chapman-Henderson, Vice-Chair of the Task Force, and CEO of the Federal Alliance for Safe Homes will be speaking on the recommendations regarding building codes, mitigation, the mobile home insurance market and other significant issues in the Florida insurance market.