SOLVING FLORIDA'S INSURANCE CRISIS
A Comprehensive Plan For
The Redistribution of Hurricane Risk in Florida
By Daniel Montgomery

— Executive Summary —

Florida is facing a potentially devastating economic crisis from the collapse of the private property insurance market, resulting in premiums multiplying for all Florida property owners.

A group of nine, bi-partisan executives, four of whom are active members of the insurance industry, have spent more than a year examining how to stabilize property insurance premiums, halt the exodus of property insurers, and relieve the state of an impending financial disaster. No member of the group is being paid directly or indirectly to advocate any solution or element of a solution. The Group represents no other entity or individual. We have done this for the benefit of all Floridians.

The Problem:

In response to the eight hurricanes which hit Florida in 2004 and 2005, insurers sought to raise their rates by unprecedented multiples. When proposed rate hikes were challenged by the state Office of Insurance Regulation (OIR), many insurers either non-renewed higher risk policies, or left the market altogether. Citizens Property Insurance Corporation (Citizens), originally intended to be only the insurer of last resort for high-risk properties, was consequently propelled to becoming the largest property insurer in the state and fourth largest in the nation.

The insurers claimed that reinsurers' rate increases drove the need for their rate hikes. Reinsurers argued that their rate increases resulted from their investors concluding that hurricane risk in Florida was not diversifiable throughout the global marketplace, but rather a certain and expensive risk, likely to occur at any time, thus requiring short-term, high rates of return to profit on investment.

The Present Solution:

In January of 2007, Florida legislators enacted a series of laws[i] which expanded the Florida Hurricane Catastrophe Fund's (FHCF) authority to offer a low-cost, middle layer of reinsurance to insurers, intended to provide rate relief to residential policyholders. Insurers were expected to retain a first level of exposure on their own, and to cover higher levels of exposure through other financial mechanisms. The reinsurance was to be funded through the sale of bonds, without impacting the state's credit rating. The legislators concurrently expanded the authority of Citizens Insurance to write property policies, which fueled an exponential growth in coverage and exposure to loss.

The result is that the FHCF bonds were difficult to sell. The state's total exposure to a major hurricane season remains largely unfunded and the new legislation failed to prevent further premium rate increases by the remaining private insurers. Some of the reasons given by the insurers were that: the "presumed factor" estimate of rate reductions by the state was wrong; they had to buy more reinsurance, as the companies who rate the insurers were not convinced that Florida would be able to fund and deliver on the promise of reinsurance should a major catastrophic event occur[ii]; and they had to increase profit loads, added risk margins, etc. in order to satisfy increased exposure. The bottom line was that companies were raising rates as much as possible to drive business away or recoup prior losses, among other motivations[iii]. All Floridians, property owners or not, are now at greater risk of being assessed, taxed, or both when catastrophe losses accrue beyond the capacity of funding in place for Citizens, the FHCF and FIGA, despite paying far higher premiums and premium assessments.

The Proposed Solution:

Our solution is conceived to accomplish four major objectives:

- To sharply reduce and stabilize property insurance premiums at their lowest possible cost for all Florida property owners.
- To enable the return of private insurers back to Florida, by allowing them to compete for property insurance at reasonable and predictable rates, without Hurricane risk.
- To relieve the State of Florida of the enormous financial exposure it has assumed under the present financial schemes in place for Citizens, the Florida Hurricane Catastrophe Fund (FHCF) and the Florida Insurance Guaranty Association (FIGA).
- To provide an alternative path for Federal Government assistance, without instituting a "National Catastrophe Fund", an undesirable burden to taxpayers in other states.

Our core premise is that the policy holders and taxpayers of the state must ultimately pay the cost of hurricane damage to property. Though we recognize that various proposals to establish a "National Catastrophe Fund" of some sort are being proffered, we will demonstrate that Floridians can most efficiently solve their catastrophe exposure dilemma within the state.

We propose transforming the FHCF into a state owned "Florida Reinsurance Corporation" (FRC). The FRC would become the sole provider of hurricane insurance for all properties in the state. Primary insurers would issue property policies, with all hurricane risk being ceded to the FRC. FRC would set premiums to be passed through by the primary insurers to underwrite hurricane coverage, leaving the carriers to underwrite and manage the more predictable and quantifiable normal wind risks. Self-insured, government and institutional property owners would purchase hurricane wind insurance directly from the FRC.

Our plan also entails the participation of the Federal Small Business Administration (SBA) to provide low-interest loans for post-event financing, through redirecting funds presently available in existing programs[iv]. The present SBA system provides low-interest loans directly to property owners, as mortgages on their properties, over and above any funds received through insurance coverage. Our concept merely redirects the loan dollars to the FRC, which will provide sufficient funding for all property owners to rebuild from 100% insurance coverage proceeds, with repayment to the SBA being made directly from the FRC premium revenue stream, already funded by the property owners.

FRC premiums will be calculated based upon type, location and construction of insured properties, thus spreading risk and losses equitably across all properties. Premiums for hurricane policies will be set on a long-term claims exposure basis, which will utilize accumulated premium reserves to preserve capital to meet a large predictable expense (i.e. hurricane losses) projected to occur within an extended time period (i.e. 20 years), the unpredictable element being the timing of the occurrences.

Financing will be accomplished by pledging the annual recurring premium revenues (calculated at $7 billion[v]) to fund both pre-event capitalization of $25 billion (the expected losses from a 1 in 20-year hurricane season[vi]), and post-event financing of an additional $50 billion ($75 billion being the expected losses from a 1 in 100-year hurricane season[vii]). FRC debt would be serviced solely from premiums and premium adjustments, without resorting to assessments and taxation of non-property owners, or further impacting state financial resources and credit ratings.

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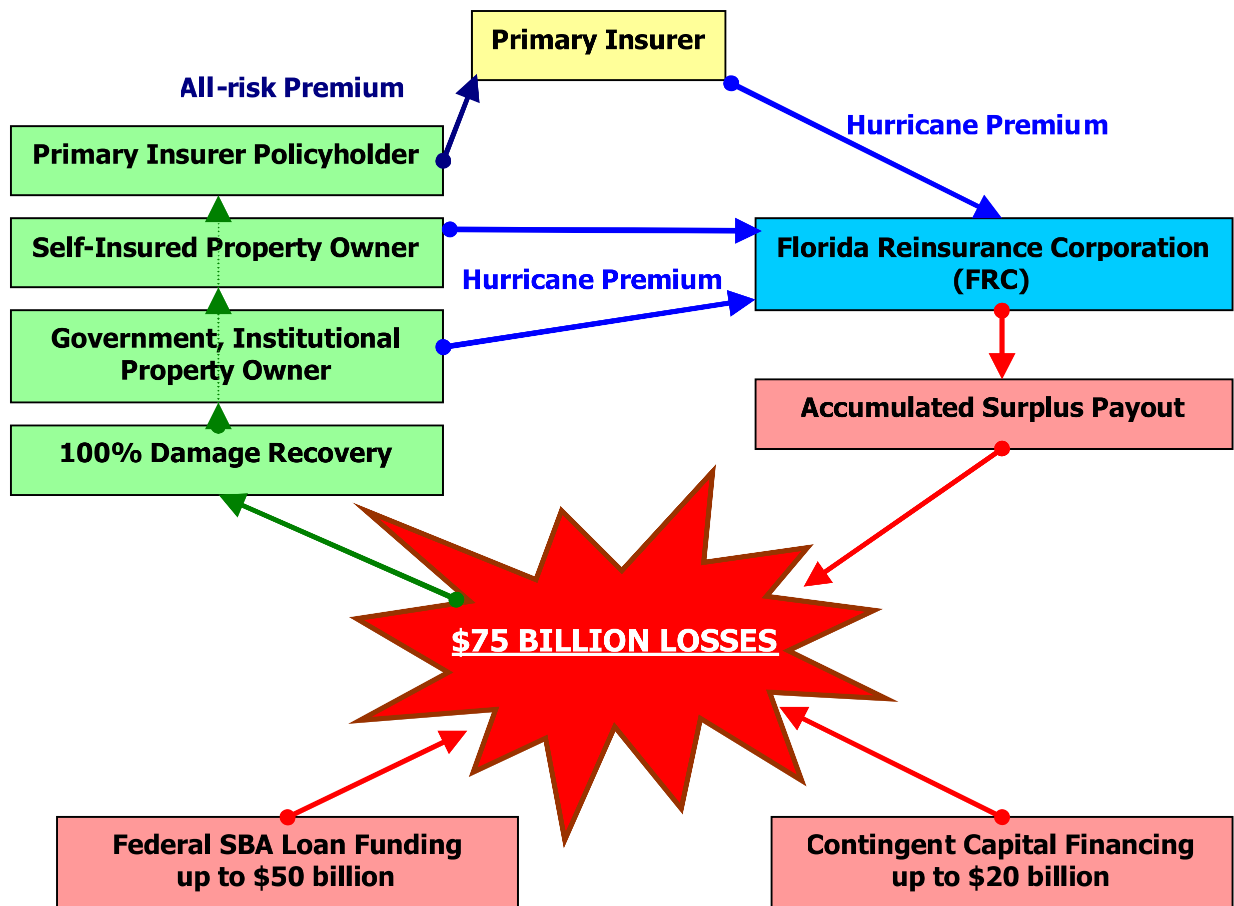
— Plan Details —

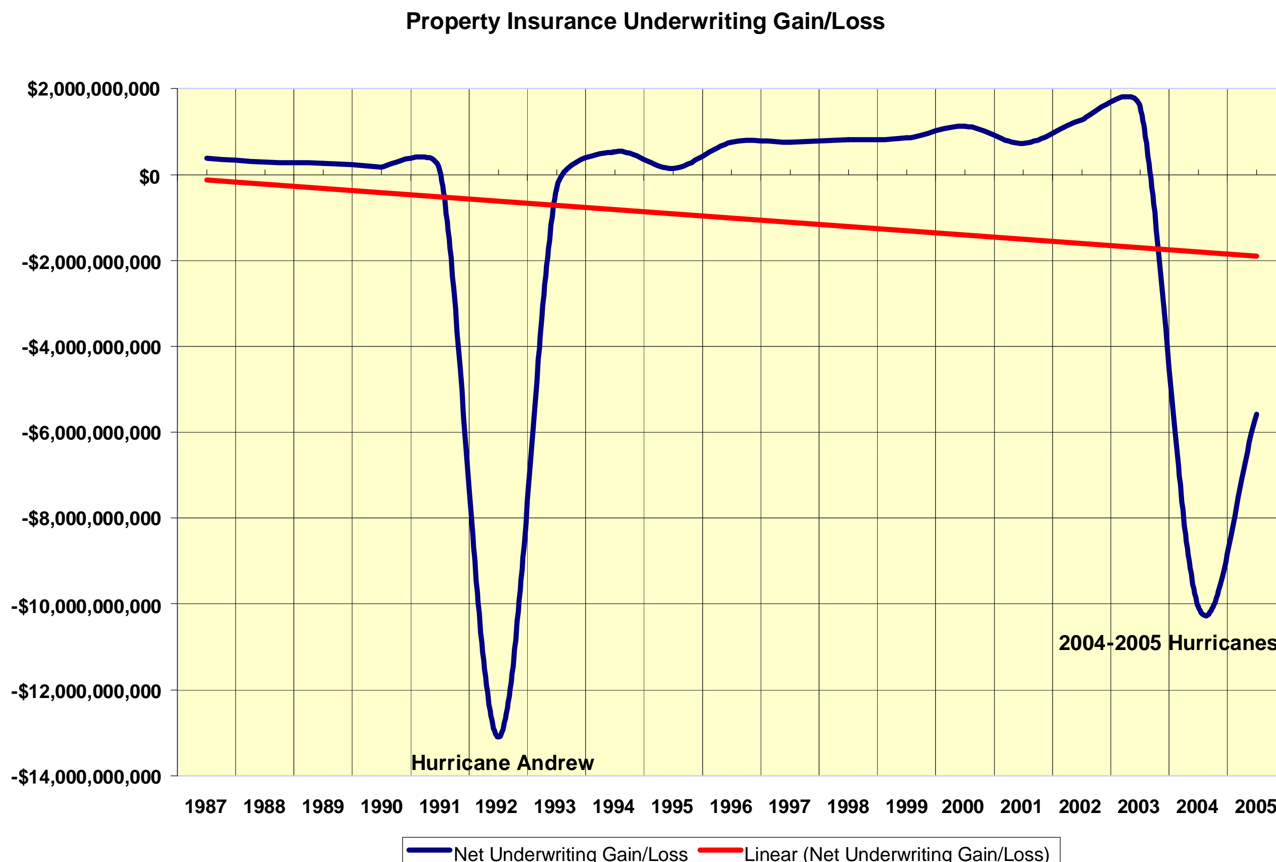
The flowcharts below depict the workings of the plan. In general, all properties are insured for hurricane loss either through a primary carrier, or directly with the FRC. Premium revenues are utilized to cover losses first, with any balance paid by pledged private contingent capital funding, and/or loans from the Federal Government. All property owners are made whole through insurance claims proceeds, without the need to individually borrow from Federal Government programs. Federal Government program allocations are re-directed in the form of loans directly to the FRC. Private contingent capital funding and Federal Loans are repaid directly by the FRC from the continuing revenue stream of premium payments on all properties.



Participation of the private insurance carriers would encompass: the submission of property information for accurate underwriting; servicing policyholder accounts; and adjusting claims in the field, under FRC supervision. Unlike the National Flood Insurance Program (NFIP) formula of retaining the premium income, and supervising themselves in the underwriting and claims processes, the carriers would have no discretionary authority over the policy premiums, underwriting and claims payments under the FRC program.

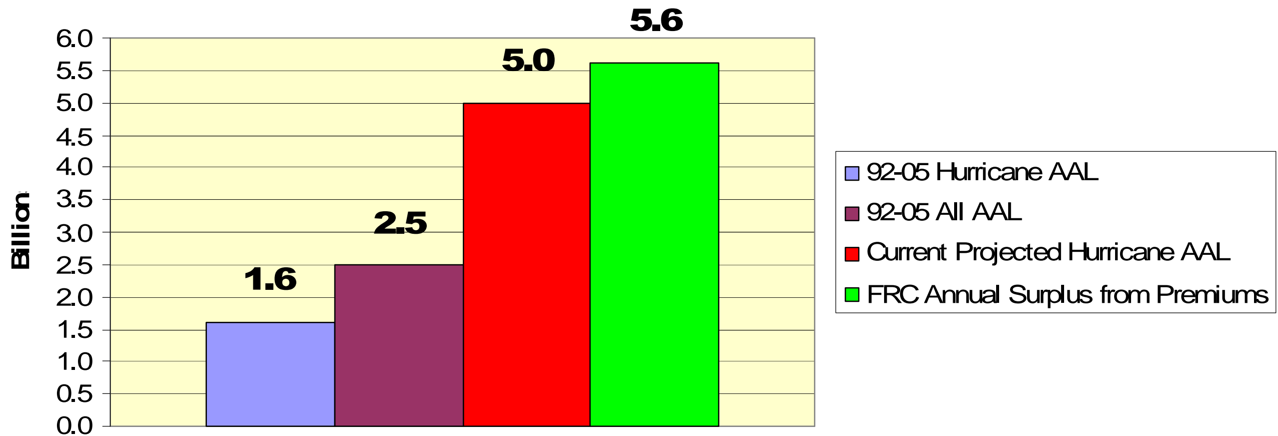
The charts and commentary on the next several pages describe highlights of the data and information from which we derived the plan, and the effect of the plan on all policyholders.

The first chart[viii] illustrates the genesis of our insurance crisis, by showing the gains and losses for all reporting carriers for the years 1987 through 2005. For simplicity, we have used the annual amounts as reported by the carriers, without adjustment to current time-value.



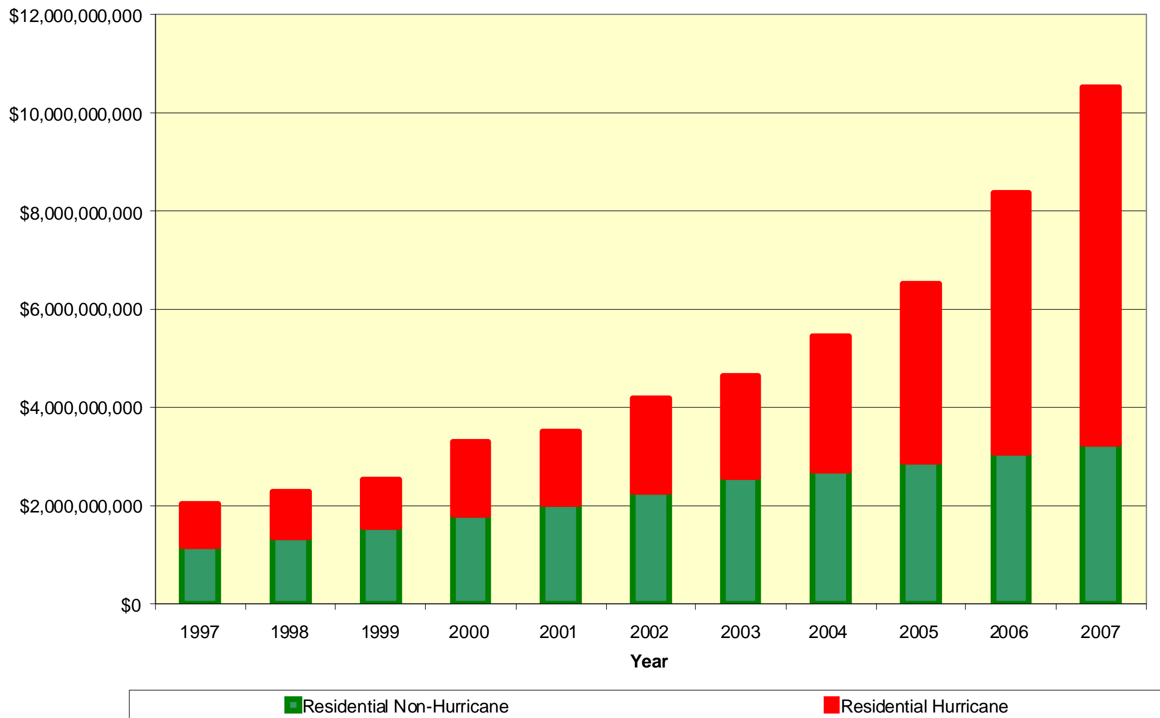
The chart illustrates the entry into the market of five major insurance carriers (State Farm, Allstate, Nationwide, Liberty Mutual, and Prudential) who, prior to Hurricane Andrew in 1992, competed with aggressive premium pricing to gain approximately 50% of the market. After Andrew, the over-exposed and under-reserved carriers, who had neglected to purchase reinsurance in order to feed their bottom lines, suffered losses of such great magnitude that they prevailed upon the state to expand a wind-pool (Florida Windstorm Underwriting Association), later replaced by Citizens and FHCF[ix], in an attempt to make-up for their short-sighted thinking. Carriers were also permitted to form limited-exposure Florida subsidiaries, in an attempt by the state to retain policy availability. By 2004 and 2005, the remaining carriers again suffered substantial losses, resulting in the current premium increases, the withdrawal from the state by Prudential along with others, and reductions in exposure by State Farm, Allstate, Nationwide and Liberty Mutual through cancellations, non-renewals and attrition (ceasing to write any new policies). Combined market share of the top five carriers had been reduced to about 30% by the end of 2005[x], and now continues to decline rapidly.

The linear regression trend line illustrates that the shortfall from break-even was about $2 billion per year.



During the 1992-2005 time period of the prior chart, Average Annual Losses for all property claims were reported at $2.5 billion per year. Losses during the time period for hurricane years only were $1.6 billion per year. Current estimates are that Average Annual Losses would fall in a range of $5 billion per year. The FRC program has been designed to accommodate Average Annual Losses at a rate of $5.6 billion per year, from premium surplus retention alone.

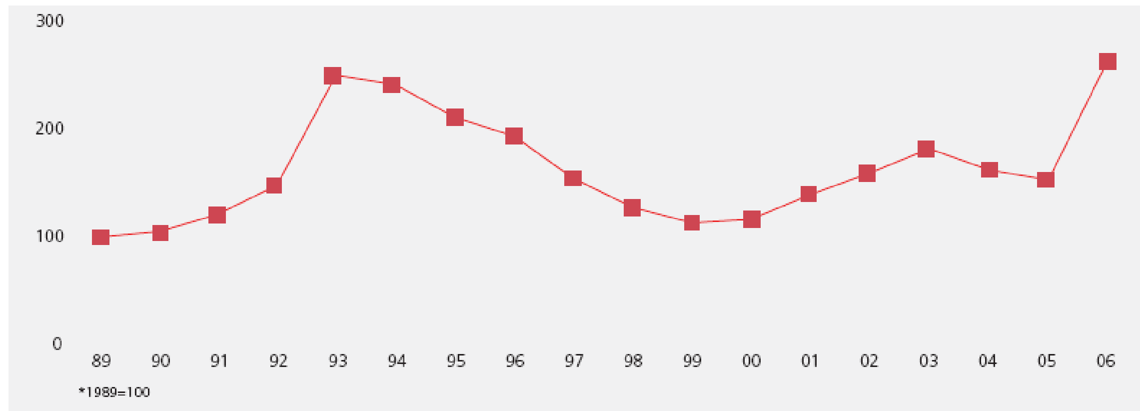
The next chart[xi] illustrates the disproportionate increase in hurricane premiums being charged for residential properties[xii] in Florida by all residential property insurers, including Citizens.



Though we only capture the statistical projections for residential properties, commercial property premiums have followed a similar, if not more drastic, course. The substantial growth in hurricane premiums is primarily due to the purchase of very expensive reinsurance. Reinsurance is not regulated, and after the 2004-2005 hurricanes, reinsurers were free to charge whatever the market

would bear. In addition, primary insurers who had not bought reinsurance began to buy it. The increase in demand for reinsurance led to capacity restraints (limited available capital) in the reinsurance market. The end result, due to the simple economic principals of supply and demand, was a rapid and unabated increase in the reinsurance premiums charged to insurers, which inevitably led to the sky-rocketing premiums demanded of property owners as the insurers sought to pass on their costs.

The Reinsurance Roller Coaster[xiii] - U.S. Reinsurance Rates On Line, as impacted by catastrophe risk



The simple message of the above chart is that Traditional Catastrophe Reinsurance, the effects of which we have all borne, is not efficient. Not only do premiums multiply after an event due to increased demand, capacity constraints, and the desire of reinsurance investors to "get even", but our present assessment system becomes itself, a post-catastrophe economic catastrophe for policyholders.

One of the major failings of our present system is that it relies upon assessments to repay the financial obligations of its financing. These assessments are added to all Florida insurance policies, property and non-property alike, with the exception of workers compensation and medical malpractice. The result is tantamount to a "socialization" of insurance risk and loss, whereby non-property owners are negatively impacted to subsidize the losses incurred by property owners. The California Earthquake Authority utilized this method after the 1994 Northridge earthquake. Fortunately, California has not experienced a major earthquake in 14 years.

The FRC solution departs completely from assessments in that it relies solely on the Premium Revenue Stream derived from all property owners, who share losses proportionate to their risk. A recent public opinion survey revealed that when Florida homeowners were asked "Do you believe that insurance rates should be based on risk, that is, should homeowners who live in coastal areas with greater exposure to hurricane damage pay more for their policies than those who live inland ?", 69% said yes.[xiv] Separating the respondents by area, 56% of coastal properties owners agreed, and 74% of inland property owners agreed.

Though there are many methods of financing and risk transfer which can be utilized to absorb catastrophic losses, we have chosen to demonstrate the effects of Contingent Capital Financing, which we believe to be the least expensive and most efficient form of financing. Although Revenue Bond Financing, which has been the state's current method of choice, could be used, it is far more expensive, and far less efficient. Either method could work, as may some other alternative methods. However, the purpose of this proposal is to demonstrate that there are far better choices available to Floridians than have been utilized to date, and that Floridians can finance Hurricane losses far less expensively than is currently being done, through premium revenue alone, and at lower rates than are currently paid.

A "Contingent Capital Financing Program"[xv] is the type of program which was utilized for the inception of the National Flood Insurance Program (NFIP). It has also been used by the State of Florida in prior programs. However under Florida's use of the program the repayment of debt was not tied to a premium revenue stream, but rather to assessments. Under the FRC program, premium reserves are used first to pay losses, and thereafter, a pre-arranged capital fund is drawn upon to finance the balance of losses, with repayment of the capital drawn down made from the revenue stream of continuing premiums.

The current, more familiar, but more expensive method is a "Revenue Bond Program". This is a more traditional program which aims to satisfy the desire to have "cash-in-hand" in the event of a major loss. Under this method bonds are sold to obtain capital, with the proceeds re-invested until needed to offset catastrophic losses. As surpluses accumulate in the absence of losses, the principal of the bonds is invested to partially offset interest being paid. Eventually the bonds are retired, as capacity to fund losses from surpluses increases. A Revenue Bond Program is how the FHCF was intended to be financed, which became problematic as the bonds became difficult to sell without a definable, committed and sufficient revenue source, even after adding state backing.

In 2006, Florida's State Board of Administration issued a report wherein a commission examined private market alternatives to financing catastrophe losses[xvi]. The report selected and described six financing methods which could be utilized: Traditional Reinsurance; Industry Loss Warranties; Catastrophe Bonds; Sidecars; Contingent Capital; and Exchange Traded Futures and Options. Missing from the comparisons was Revenue Bond financing, which is the method that was eventually, unsuccessfully employed.

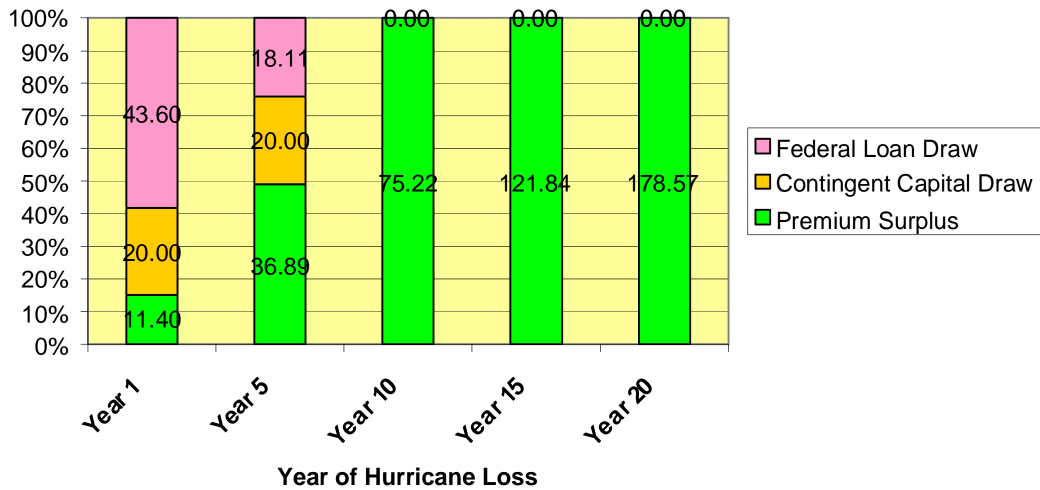
The six methods were compared by their inherent benefits and disadvantages. The method noted to have the least cost was Contingent Capital Financing. Unfortunately, the proposed disadvantages of Contingent Capital Financing were derived from the assumption that assessments and alternative taxation, rather than a premium revenue stream, would be used to retire the debt obligations of borrowed capital. Had the commission entertained an FRC type solution, the three listed disadvantages of:

1. "No risk transfer – any claims are repaid", would be an advantage under the FRC plan, as the goal is to pay the claims through the most efficient and least costly financing means;

2. "Potential rating agency impact on state credit", would be true absent a definable, committable premium revenue stream, budgeted to repay the losses incurred not have applied.

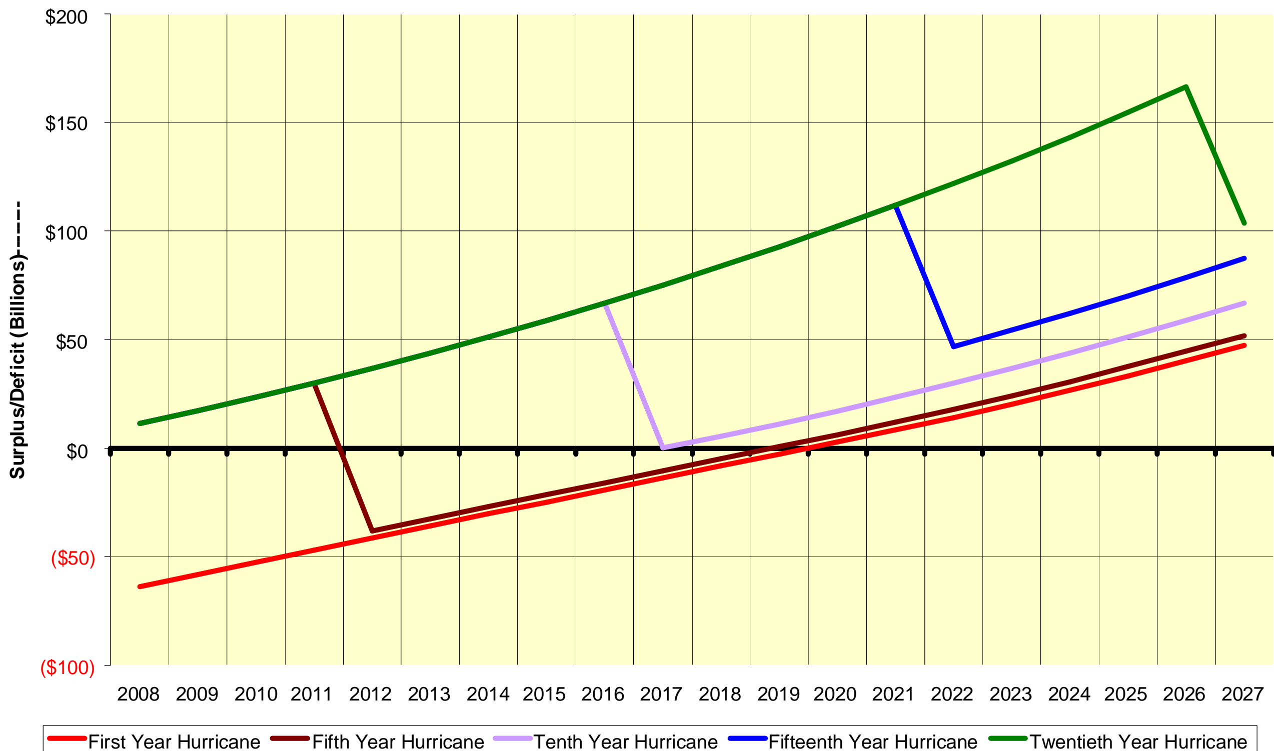
3. "Can grow to big to execute", true if the funds to cover the losses must come from assessments, taxes or other impositions due to an under-funded payment mechanism, but not true in the case of the FRC plan, as large losses and efficient funding are contemplated and accounted for

The next charts depict the levels of financing required, and the financial impact of 1 in 100-year, and 1 in 20-year hurricanes, with losses of $75 billion for the 1 in 100-year event and $25 billion for each of the 1 in 20-year events. The respective loss amounts reflect the current estimates of the hurricane modelers upon whom the insurance carriers and the insurance industry rating services rely[xvii]. The charts reflect the total net impact on property owners of financing hurricane risk, without engaging in expensive and inefficient risk transfer mechanisms or asking for Federal bail-outs.

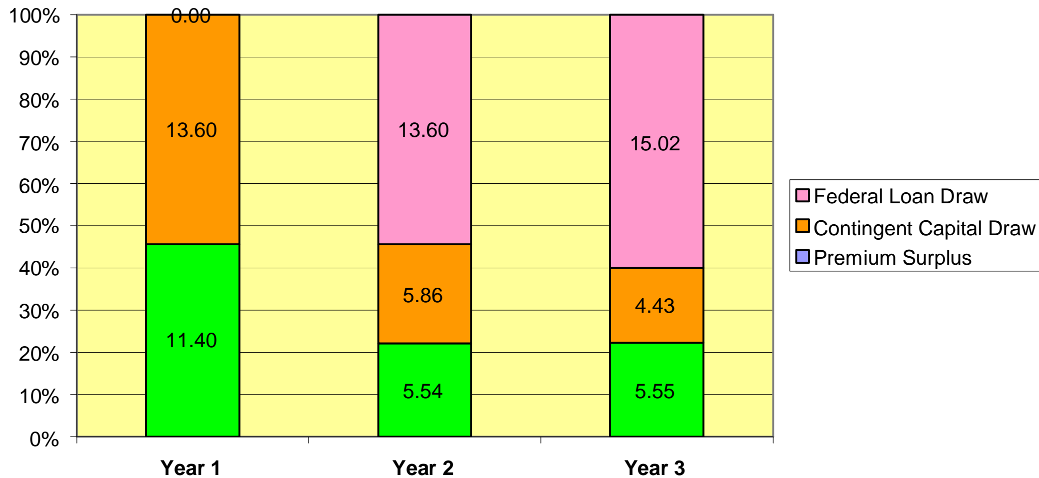


The above chart depicts the sources of funding utilized if Florida is struck by a 1 in 100-Year ($75 Billion) hurricane in either the first, fifth, tenth, fifteenth, or twentieth year after implementation.

The following chart shows the amounts of financing utilized, with the time required to repay borrowings, and return to surplus accumulation if a 1 in 100-Year hurricane strikes in those years.



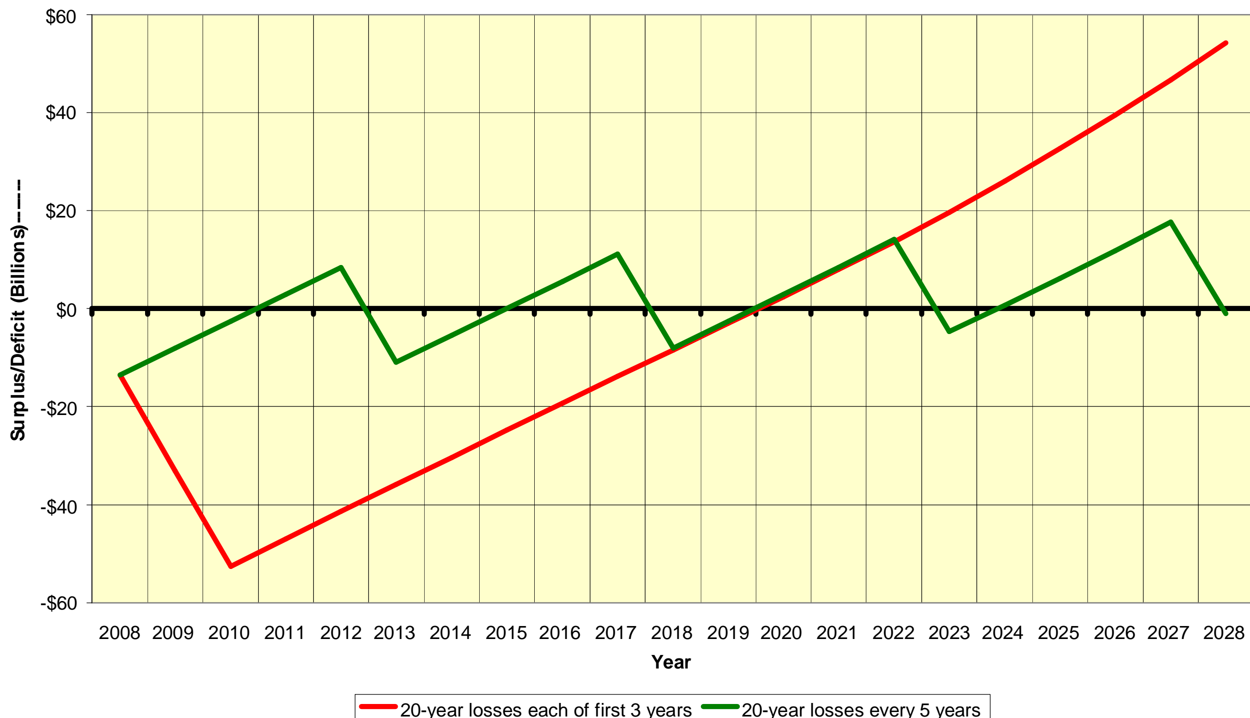
3 Consecutive 20-Year ($25 Billion) Hurricanes

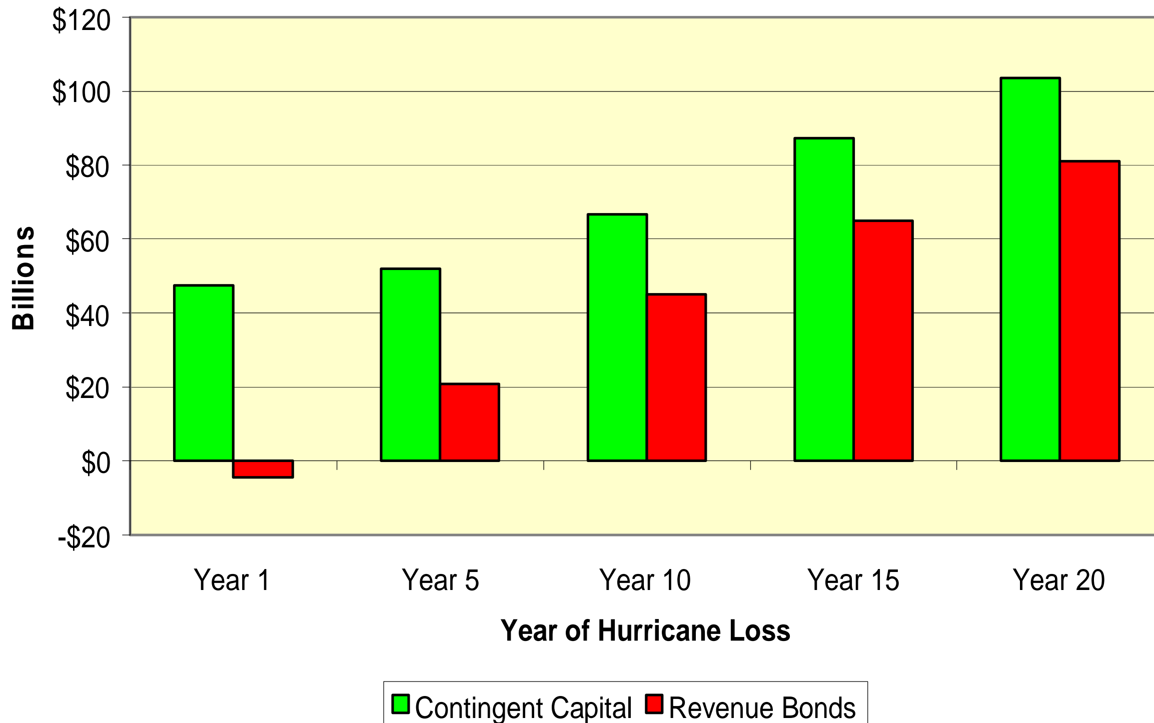


The above chart depicts the sources of funding utilized if Florida is struck by a 3 consecutive 20-Year ($25 Billion) hurricanes beginning with the first year of the FRC plan. This would be equivalent to revisiting 2004 and 2005, with the addition of more of the same in 2006.

The following chart shows the amounts of financing utilized, with the time required to repay borrowings, and return to surplus accumulation with those 3 consecutive 20-Year ($25 Billion) hurricanes. As the reinsurance industry has chosen to use 1 in 20-year loss calculations, compressed into 5-Year time periods in determining their returns on investment, we have added a graph which demonstrates that the FRC plan will also handle that very scenario.

Financial Impact of 3 Consecutive 20-Year ($25 billion) Loss Years and Impact of 1 20-Year ($25 Billion) Loss Year Every 5 Years





Financial assumptions for the foregoing charts are as follows:

1. FRC operating costs are calculated at 20% of premium revenue.
2. Investment income is calculated at 4% per annum.
3. Payment for losses will be made first from premium surplus, then from Contingent Capital Draws, and finally from Federal Loans.
4. An annual commitment fee of 1% will be paid for the availability of the contingent capital which, if drawn down, will be repaid at an interest rate of 8% per annum.
5. Interest costs for post-event borrowings of up to an additional $50 billion from the Federal SBA are calculated at the current 30-year Treasury Bond Yield of 4.51%.
6. No FRC funds will be appropriated for any other use.

We note from the above comparisons that a Contingent Capital Program generates lower financing costs, and develops greater surpluses during the time periods. This occurs because with Contingent Capital Financing the FRC only pays interest for funds when needed, as opposed to the fixed-time interest obligation of a Revenue Bond, whether funds are needed or not. The obvious benefit is the more rapid growth of surpluses to address future needs. An additional, and possibly greater, benefit is that a Contingent Capital Program tied strictly to premium revenues is less likely to have an implied negative effect on the state's credit worthiness and ratings.

We repeat that these are but two approaches to resolving the problem, and that there are many other financing techniques available to be employed, some of which may yield even better results.

The Effect of the FRC Plan on Property Insurance Premiums

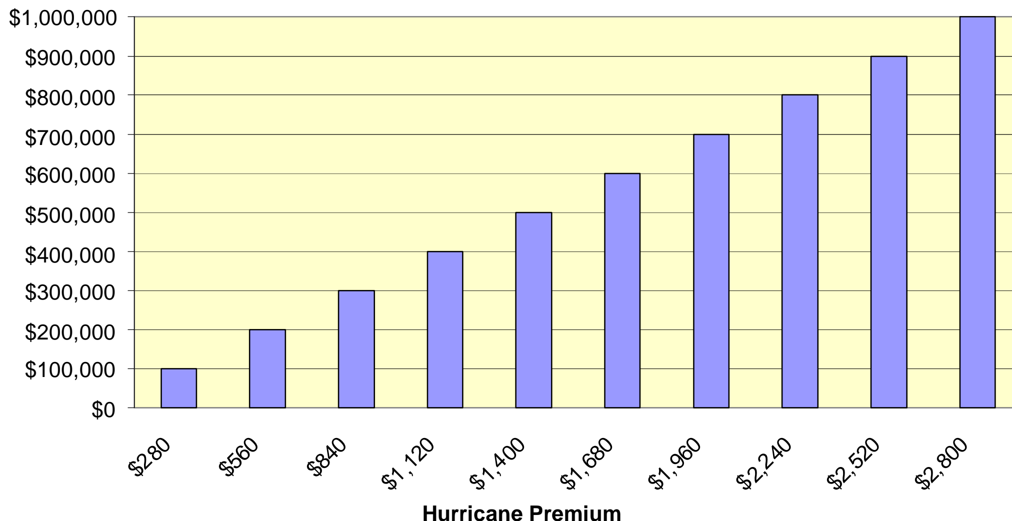
The presentation thus far of facts, projections and conclusions serve to illustrate that hurricane losses are not economically insurable, but are financeable. By calculating the expected losses which may be sustained, with the only uncertainty being when they will occur, we have demonstrated that the State of Florida can cover its losses. The single question remaining therefore is how the plan will serve to lower property insurance premiums, an unkept promise that has been made before.

Perhaps the most important result of the FRC plan is that the FRC program utilizes lower hurricane premium revenue than is currently paid by residential and commercial property owners. When the hurricane premiums paid by non-reporting commercial, self-insured, government and institutional properties are factored into the funding of the total projected losses from major hurricanes, with the risk spread across all Florida Properties, the expected result is that hurricane premiums will be considerably lower, as the risk is spread across a wider risk base. In addition, when the burden of hurricane risk is eliminated from the private insurer's actuarial calculations, and insurers are free to compete for the portion of property insurance risk which they can best calculate and are best suited to insure, the base premiums for property insurance would also expected to decline.

It has been estimated that the total insured exposure value of Florida coastal properties in 2004 was approximately $1.94 trillion, and that coastal properties comprised 79% of Florida properties.[xviii] That would project to there being $2.45 trillion of insured properties throughout the state. Risk Management Solutions concluded in 2006 that the aggregate of all insured property values in Florida would be approximately $1.6 trillion in residential values and $1.0 trillion in commercial values, for a total of $2.6 trillion.[xix]

Having illustrated that Florida can finance a 1 in 100-year ($75 billion in losses) season with a premium base of $7 billion, the amount of premium required to insure $2.5 trillion in value would be $2.80 in raw premium for each $1,000.00 in insured value. (Raw premium is the premium base which would then be adjusted for type and location of property, such that each property owner bears a proportionate share of total state risk, based on each individual property's relative risk to the whole).

The chart which follows shows the raw premium for each $100,000.00 in insured value. We invite Floridians to compare the hurricane portion of their current premiums to the chart.

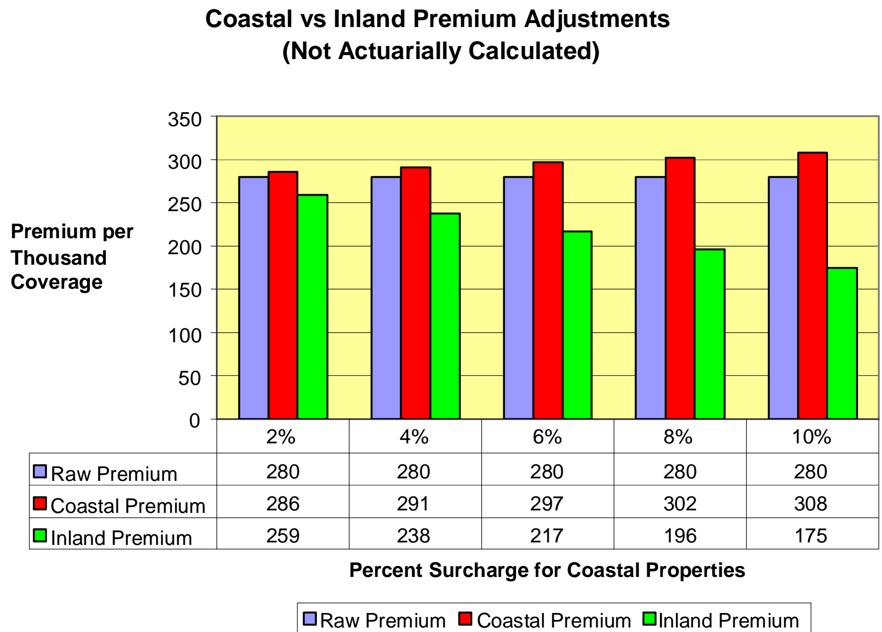


An Illustrative Impact of the FRC Plan on Property Insurance Premiums

One final comment to be reiterated with respect to premiums is that the FRC plan would, in addition to significantly lowering property premiums, eliminate the hidden "Hurricane Tax" being charged to all policyholders as FHCF, FIGA and Citizens assessments, which is an additional 8% to 20% of current premiums. In the event of a major hurricane, Citizens policyholders could pay an additional 60% or more in assessments above their premiums paid. Under the FRC plan, there would be no need to assess, tax or further encumber property owners, or any other Florida insurance policy holders. The current "socialization" of property insurance risk would end.

Using the calculations of the prior section, we offer the following illustrations of the projected impact of the FRC plan on the property insurance premiums currently being paid by Don Crane, the founder of our group, and Dan Montgomery, the author of the plan.

First, let us assume that inland property owners should not have to subsidize coastal property owners. As 79% of Florida properties are coastal vs. 21% being inland, the following chart shows the effect of coastal property owners being charged an additional 2% to 10% premium for their proximity to the coast, and the resulting reductions for inland property owners.

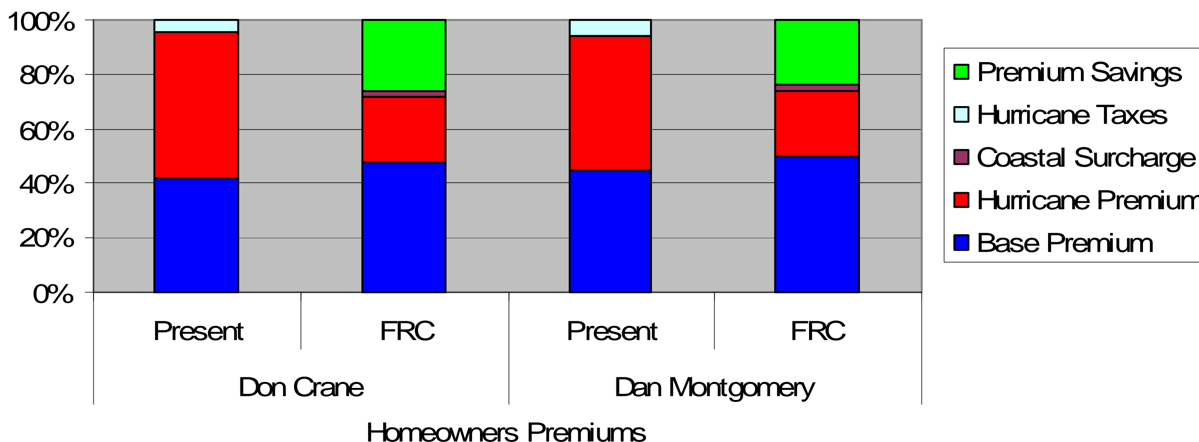


	2%	4%	6%	8%	10%
Raw Premium	280	280	280	280	280
Coastal Premium	286	291	297	302	308
Inland Premium	259	238	217	196	175

Note from the above chart that, with an increase of raw hurricane premiums for coastal property owners of 10%, the effect for inland property owners would be a reduction of 37.5%.

The next and final chart illustrates the actual anticipated premium reductions for two coastal properties, where a premium surcharge of 10% for coastal proximity is included, hurricane taxes and assessments are eliminated, and base homeowners premiums are left unchanged.

Using the actual homeowners' premiums Don Crane and Dan Montgomery are currently paying, Don to a private carrier and Dan to Citizens, the next chart shows the premium reduction that could be expected through the implementation of the FRC program. Note that the base premiums have been left unchanged, as we cannot yet determine the effect on the base portion of the premium absent a competitive private market within which to shop.



Don Crane and Dan Montgomery live in Pinellas County, a coastal community. For Don, the total homeowner's premium, including the 10% coastal surcharge, and elimination of the Hurricane Taxes, would provide a reduction of **31%** compared to this year's premium. For Dan, the reduction would be **28%**. These premiums are for 100% recovery, ***without any deductibles***. If we were to calculate the premiums with inclusion of a Hurricane Deductible, the reduction in premiums would be even greater.

— Implementing the Plan —

As with all plans, the Devil is in the details. Some of the more important considerations which must be addressed in order for the plan to succeed follow. Though we have examined each of the points we raise, and have developed solutions to them, we list the points of consideration here so as to invite a wider range of independent thinking to bear upon the issues.

- **PROPERTY INCLUSION**
  The plan contemplates that all properties in the state be included in the program. The purpose of mandating inclusion is to spread the risk of hurricane strikes across the widest possible pool of potential loss locations, resulting in premiums being shared equitably and proportionally.

  The premium base utilized in the preceding analyses is derived from current reported premiums. The reported premiums are only required of admitted carriers. As the projections for maximum losses likely to be sustained are relatively fixed, spreading the risk across all residential, commercial, plus the non-reported commercial, self-insured, government and institutional properties can only drive per property premiums down.

- **PROPERTY RATINGS**
  Properties would be rated by a tiered rating system wherein properties would be valued in accordance with their true replacement cost, then classified by actuarially and scientifically determined geographic zones, and finally be classified by their ability to withstand hurricane winds as a result of their engineering, type of construction and PML. In order to induce accurate ratings at policy inception, agency commissions would be set under a fee structure which would provide a financial incentive for agents to spend the time required to accurately rate structures for underwriting. Finally, a co-insurance penalty (meaning that the property owner will absorb a portion of the loss) will be applied at the time of any claims, where it is determined that the structure was not properly rated at policy inception.

- **POLICY PREMIUM RATES**
  We would envision that the Office of Insurance Regulation be tasked with assessing the solvency of carriers writing in the state, and that rate filings be supervised for the all-risk portion of policy premiums, without the ratings for the hurricane portion of the policy premium, which would be set by the FRC. Rate filings and controls should be set to encourage free market competition among carriers, no longer burdened with hurricane risk in determining the premiums charged for their remaining calculable risk exposure.

- **CITIZENS PROPERTY INSURANCE CORPORATION (CITIZENS)**
  In order to ensure an orderly and competitive transition back to a private insurance marketplace, Citizens must remain in place to act as a safety valve to ensure that Floridians pay a reasonable premium for the all-risk, non-hurricane portions of their coverage. Citizens would be directed to write policies at actuarially sound premium rates, with a built-in allowance of 10% retained premium earnings for all-risks other than hurricane, wherein Citizens would also cede the hurricane risk portion of their policies to the FRC at FRC premium rates. Private insurers would be allowed to buy-out Citizens policies via a competitive bidding process. This would ensure that property owners would have a source through which they could purchase

insurance for the near-term, and would eventually reduce the Citizens policy count and exposure as private insurers return to the market in pursuit of profitable and reasonably priced policies. The transition of policies from Citizens to the private market would leave Citizens to serve the purpose for which it was originally formed, to be the insurer of last resort for those property owners unable to find coverage elsewhere.

- **MITIGATION AND BUILDING CODES**
  All communities in the state would be required to adopt standardized building codes, designed to provide increased hurricane resistance for all new structures, as well as requiring that pre-existing structures be upgraded at such time as they are remodeled or repaired. Over time, all Florida properties would be at less risk in the face of hurricanes, resulting in a continuing decline in losses and premiums. A bill to accomplish the task is currently being considered.

- **FEDERAL SMALL BUSINESS ADMINISTRATION**
  The critical secondary source of funding for losses would be the U.S. Treasury through the Small Business Administration. As discussed earlier, the SBA currently provides low-interest loans for rebuilding disaster impacted structures through a cumbersome process of assessing the credit worthiness and property equity of an applicant, then having to provide mortgage servicing for qualified borrowers. Under the FRC program, the SBA would be asked to provide those same loans directly to the FRC. Structures would be rebuilt through FRC claims payments, and the premium revenue stream would be a more efficient and less risky alternative for loan repayment. For example, if a property were to be foreclosed, the lender or any subsequent owner would still be required to pay the FRC hurricane premium, which leaves the revenue stream fully funded, without the need for the Treasury or SBA to be at risk. In addition, the funding, as loans, would remain a balance sheet item, thereby not adding to the Federal deficit, and the interest paid would be the same as the Treasury would receive had they sold a 30-year Treasury Bond..

  The policy will be worded so that hurricane coverage is triggered concurrently with the Federal declaration of a catastrophe, qualifying the areas impacted for Federal aid programs.

- **FLOOD INSURANCE**
  Flood damage from hurricanes will be excluded. Flood coverage will still be expected to be purchased from the NFIP, and private excess flood insurers.

- **CLAIMS ADMINISTRATION**
  Critical to the success of the program is proper catastrophe claims administration and training. Though primary insurers will be responsible for on-site claims handling, the skills and training of typical catastrophe insurance adjusters vary from neophyte to considerable. Major insurers initiated programs for training catastrophe adjusters after Hurricane Andrew and the Northridge (California) Earthquake of 1994. However, most catastrophe adjusters hired for major loss events, though versed in construction, are lacking in understanding of cause, origin and coverage. The FWUA and Citizens instituted training programs as must the FRC. As this program is all about catastrophe losses, a comprehensive classroom, distance and online training process will be a significant factor in the proper assessment and settlement of claims.

What's Next?

Encourage our leadership in Tallahassee to Form and Fund a Task Force to Explore the Feasibility of Implementing the FRC Solution

The Task Force would be expected to accomplish a minimum of the following:

- Determine the premiums currently being paid by Florida Property owners for Hurricane Insurance, and the Total Insured Value of the properties for which premiums are paid
- Determine the Replacement Cost Value of all Florida Properties
- Determine the Maximum Probable Loss of a 1 in 100-year hurricane season in a worst-case scenario
- Develop a strategy of incentives to maximize the participation of Florida property owners in the FRC Program
- Determine the likelihood that ratings agencies will treat the FRC through it's premium revenue stream as a separate and distinct credit risk, which will not impact the State's credit ratings
- Determine the likelihood of the Federal Government's willingness to provide long-term catastrophe financing
- Explore the implementation of a statewide building code
- Determine the impact of Citizens insuring at actuarially sound premiums, with a 10% retained earnings projection

We have already begun to examine the above, but we can't do it alone.
We encourage and invite your support.

Thank you for taking the time to explore our solution.

Donald R. Crane, Founder and Group Coordinator
Daniel Montgomery, Catastrophe Insurance Expert and Author

[i] House Bill 1A through changes to Florida's insurance law was intended to provide the following benefits: Provide relief from skyrocketing property insurance rates by providing a framework to lower rates for all Floridians. Expand the Florida Hurricane Catastrophe Fund thus allowing insurers to purchase less expensive reinsurance and pass those savings on to consumers. Enhance competition and protect consumer choice within Florida's insurance market by allowing Citizens Property Insurance Corporation to compete with private insurers. To freeze rates, repeal all 2007 rate increases and provide refunds for consumers who had already paid those increases. Protect consumers by preventing companies from raising rates without state approval, from dropping policyholders during hurricane season and from delaying payment of claims. Policyholders were to have more flexibility and consumer choice because insurers were required to allow coverage options and installment payments for premiums. The Insurance Consumer Advocate would provide a consumer rating for each insurance company, allowing Floridians to make more educated decisions when choosing an insurance company. Eliminate regional exemptions to the Uniform Building Code, with the goal of reducing the number of buildings damaged or destroyed by storms, while requiring insurers to take into account hardening of homes when establishing rates. Require insurers to return excess profits to policyholders. The bill also provided a first step in eliminating "cherry-picking", a practice where insurance companies sell only profitable automobile insurance and do not offer property insurance, which involves more risk. Additionally, the law placed more restrictions on nationwide companies whose Florida-only subsidiaries raise rates while the parent companies generate excessive profits.
[ii] A.M.Best, Rating Implications of Recent Florida Legislation, February 26, 2007
[iii] "Property/Casualty Insurance in 2007: Overpriced Insurance, Underpaid Claims, Declining Losses and Unjustified Profits", Americans for Insurance Reform, Center for Insurance Research, Center for Economic Justice, Center for Justice and Democracy, Consumer Federation of America, Consumers Union, Foundation for Taxpayer and Consumer Rights, United Policyholders, J. Robert Hunter, Director of Insurance, Consumer Federation of America, 1620 I Street, NW; Suite 200, Washington, D.C. 20006, January 8, 2007
[iv] "SBA Disaster Loan Programs" at http://www.sba.gov/services/disasterassistance/
[v] Florida State Department of Financial Services, Office of Insurance Regulation (OIR). (Total estimated Hurricane premiums are $11 Billion. The FRC plan is based on $7 Billion.)
[vi] AIR (Applied Insurance Research) Worldwide Corporation, RMS Inc (Risk Management Solutions), EQECAT Inc., Florida International University, compilation of data
[vii] AIR (Applied Insurance Research) Worldwide Corporation, RMS Inc (Risk Management Solutions), EQECAT Inc., Florida International University, compilation of data
[viii] Florida State Department of Financial Services, Consumer Advocates Office
[ix] "The Property Insurance Market in Florida 2004: The Difference a Decade Makes", Florida State Department of Financial Services, Office of Insurance Regulation (OIR), March 2005
[x] An Overview of Florida's Insurance Market Trends, Florida State Department of Financial Services, Office of Insurance Regulation (OIR), 2006
[xi] Florida State Department of Financial Services, Office of Insurance Regulation (OIR)
[xii] Premiums charged by Excess and Surplus Lines insurers, who are not admitted to the state, and write much of the coverage for commercial properties, are not required to be reported
[xiii] Compiled by Guy Carpenter, 2006
[xiv] Survey by Public Opinion Strategies, for the Property Casualty Insurers Association of America, January 2008
[xv] "Capital Market Instruments for Catastrophe Risk Financing", presented at the American Risk and Insurance Association 2007 Annual Meeting in Quebec City, Canada, August 5-8, 2007, pp 8 and 15
[xvi] A Study of Private Capital Investment Options and Capital Formation Impacting Florida's Residential Insurance Market, State Board of Administration of Florida, September 19, 2006
[xvii] AIR (Applied Insurance Research) Worldwide Corporation, RMS Inc (Risk Management Solutions), EQECAT Inc., Florida International University, compilation of data
[xviii] Robert Hartwig, Insurance Information Institute, 2006, from data of AIR Worldwide, Inc.
[xix] Risk Management Solutions: Presentation to 2006 Property & Casualty Insurance Reform Committee, September 2006