PROP-10: Current Issues in Florida Property Insurance

2000 CAS Ratemaking Seminar
March 9, 2000

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2000 Legislative Session

- Fallout from the FWUA filing:
  - Repeal arbitration.
  - Develop university system model.
  - Shrink FWUA boundaries.
  - Create assigned risk plan.
- Statewide building code.
- DOI Reorganization – Elected or Appointed?
- Hurricane deductible fix.
- FHCF "Glitch" fix.

FHCF Issues

- 1999 Legislation.
- The "Glitch".
- Proposed 2000 Rates.
- Data call changes.
- FHCF payment plans.
- Restructuring options.

1999 FHCF Legislation

- Indexed retention to exposure.
- Caped payout at $11 billion for one season.
- Allowed faster reimbursement payments.
- Limited insurer coverage to the payout multiple.
- Allowed line of credit reimbursement.
- Increased maximum assessment to 6%, limited to 4% in any contract year.

FHCF "Glitch"

- 1999 Legislative Change included per company cap for non-pools.
  - Intended to apply to all loss events.
  - Was applied only to loss events over $11 billion.
- Plan to fix in 2000 session, but may not succeed due to possibility of "train".

Proposed FHCF Rate Change

	Current Statute	Proposed Statute
Basic FHCF Rate Change	+0.4%	-3.1%
Pools Rate Change	+4.4%	+4.4%
Total Rate Change	+1.4%	-1.2%

2000 FHCF Details

- Coverage of $11B/$5B second season.
- About $3.5B of cash.
- Main ratemaking issues:
  - Used 4 models.
  - Froze relativities.
  - Lowered investment income due to faster payout assumptions.
  - Enhanced storm shutter and BCEG credits.

Data Call Changes

- Reporting of BCEG code required.
- Storm shutter credit based on primary company premium.
  - Prior call was yes/no with 10% credit.
  - New call will require determination of insurer shutter credit as a percentage of hurricane premium.
  - If insurer credit <10%, 8% FHCF credit.
  - If insurer credit >= 10%, 12% FHCF credit.

FHCF Loss Reimbursement

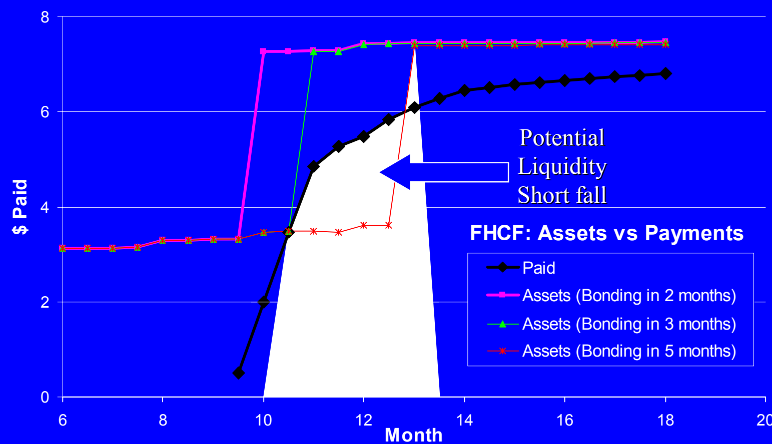
- Under per-1999 law, FHCF would have paid after year end.
- Under new law:
  - Insurers shall report…no later than December 31 of each year…
  - The Board shall determine and pay, as soon as practicable after receiving these reports…
  - Insurers shall report quarterly after December 31, and the Board will make the appropriate adjustments as soon as practicable thereafter.

Issues

- FHCF is required to “advance” funds to limited apportionment insurers and residual markets. How much must be held in reserve?
- If FHCF pays as it is petitioned, what happens if it runs out of money:
  - Bonding below projections (interest rate).
  - Bonding slower then forecast (timing).

Potential Shortfall

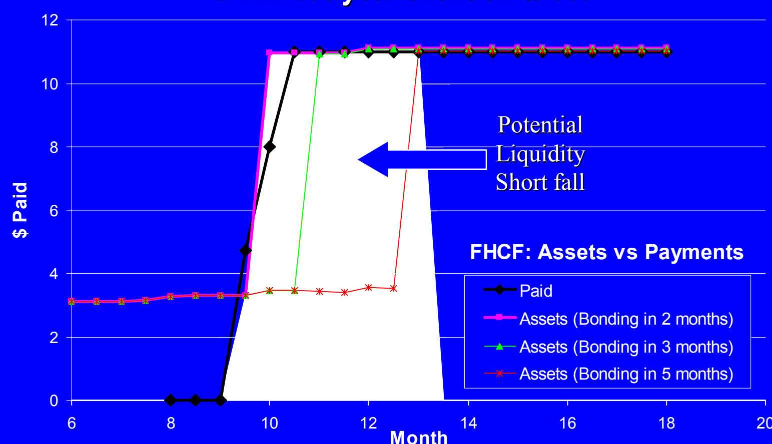
Example of Payout - $11.3B loss ($7.4B to FHCF), a 1-in-40 year event, on 8/1/00



Source: Paragon

Potential Shortfall

Example of Payout - $25B loss ($11B to FHCF), a 1-in-200 year event on 8/1/00



Source: Paragon

Reimbursement Options

- After January, after bonding.
- Share of cash, based on share of premium.
- Share of cash, based on share of losses.
- Pay conservative multiple upon request.
- Pay full multiple upon request.

Analysis & Recommendation

- Analysis of probabilities:
  - 15 month interest rate swings over past 45 years.
  - Storm events:
    - By size.
    - By number within a year.
- Recommendation: Pay conservative multiple upon request.

FHCF Structural Changes

- Retention Adjustments (RAA).
- Providing Lower and Higher Coverage Options.
- Merging FHCF with FWUA.
- Alternative Financing Options:
  - Reinsurance.
    - Initial season.
    - Subsequent season.
  - Capital markets products.
  - Liquidity and investment yield options (swaps).

Issues

- Current structure has uncertainty:
  - Timing of loss reimbursement.
  - Second season capacity.
- Current 2/3 premium, 1/3 assessment.
- Market has reached “equilibrium”.
- Changes will disturb equilibrium.

Tradeoffs

- Increase FHCF involvement:
  - Greater market stability.
  - Greater public sector costs/risks.
  - Less private capital.
- Current cost vs. long term stability.
- FHCF capacity vs.market cycles: should FHCF offset or exacerbate?

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