

***Adopted Minutes of January 18-19, 2006,
Meeting of Task Force on Long-Term Solutions
For Florida's Hurricane Insurance Market***

The Task Force on Long-Term Solutions for Florida's Hurricane Insurance Market convened its sixth meeting on Wednesday, January 18, 2006, at 9:00 a.m. at Florida International University, Biscayne Bay Campus, Wolfe University Center, Room 155, 3000 NW 151 Street, Miami, FL 33181. The meeting continued on Thursday, January 19, 2006, at the same location.

Chair **Kevin M. McCarty**, Commissioner, Office of Insurance Regulation, called the meeting to order and recognized a quorum.

In addition to Chair McCarty, attending were the following Task Force members: **Steve Burgess**, Insurance Consumer Advocate, State of Florida; **Richard Cain**, Vice President, State Farm Insurance Company; **Leslie Chapman-Henderson**, President/CEO, Federal Alliance for Safe Homes, and Vice-Chair of the Task Force; **Dave Cobb**, President, Freedom Insurors, Inc.; **Randy Dumm**, Ph.D., Associate Professor of Risk Management and Insurance, Florida State University; **George Grawe**, Counsel, Allstate Floridian Insurance Company; **Robert P. Hartwig**, Ph.D., Senior Vice President and Chief Economist, Insurance Information Institute; and **Harold Humphrey**, Vice Chairman, InSource, Inc.

1. Approval of Minutes of December 14, 2005, Task Force Meeting. Task Force members unanimously approved written minutes of the Task Force's fifth meeting on December 14, 2005, as presented to them in advance.

2. Features that should be included in a National Catastrophe Plan. The Chair introduced Robert E. Litan, Vice President for Research and Policy at the Kauffman Foundation and Senior Fellow, Economic Studies, The Brookings Institution, who addressed the Task Force on features he believes should be part of a proposed National Catastrophe Plan. Mr. Litan distributed, "Sharing and Reducing the Financial Risks of Future 'Mega-Catastrophes'" to members of the Task Force.

He noted that 7 of the 12 costliest natural disasters in U.S. history occurred in 2004 and 2005 and that all 7 were hurricanes that hit somewhere in Florida. If a Category 5 hurricane had hit Tampa, it could have caused \$65 billion in residential and commercial damage. One hitting Miami could have caused \$155 billion in residential and commercial damage.

Mr. Litan defined a "mega-catastrophe" (mega-CAT) as a single natural disaster, or a combination of them over a year, which leads to market failure. Failure of the insurance market occurs when insurers withdraw from particular regions through exclusions or refusals to sell because insurance is too risky and/or regulation makes it unprofitable to sell, or when risk-adjusted premiums become so high that significant numbers of otherwise eligible purchasers decide not to buy coverage.

He observed that private insurance, including both primary and reinsurance, is predicated on the "law of large numbers", independent risks, and absence of adverse selection. With mega-CATs, insurers can't take advantage of the "law of large numbers" and claims aren't independent. As a result, risk-

based pricing will imply extraordinary premiums to account for “timing risk” arising from extraordinary uncertainty about when claims may be made. Insurers will not cross-subsidize across geographic or product lines. Adverse selection therefore occurs: the greatest risks become uninsurable as, for example, withdrawal of private insurers from the flood market after the 1927 Mississippi River flood. Mr. Litan discussed “timing risk” in detail.

Florida and, to a lesser extent, California have responded to CAT and mega-CAT risks by establishing reinsurance funds to encourage the private market and, as in the case of Citizens in Florida, residual market insurers. The federal response is disaster relief, after the fact, some of which goes to uninsured individuals and the rest to state and local governments for rebuilding infrastructure. These government responses are limited. The Florida CAT fund has limited resources. After the fact disaster relief fails to promote mitigation. These limits result in reduced private insurer availability and choice, intensified demands for disaster relief which reduces mitigation, high risk loads on private rates including more costly reinsurance, and higher social losses than necessary.

Mr. Litan argued that a multi-layered approach is the only solution, starting with individuals, primary insurers, reinsurers and the capital markets; leading to state plans (such as the Florida CAT Fund); and continuing through federal reinsurance and, if possible, federal tax deductions for CAT reserves maintained by private insurance companies.

He discussed in detail the main issues in federal reinsurance: attachment point; pre-funding or post-funding (recoupment), or both; if pre-funding, how the premiums would be set and who would set them; whether the federal plan would be offered only to state plans or to primary insurers and reinsurers; incentives for homeowner and government mitigation; and subsidies for low income households.

On the attachment point issue, he noted that the purpose was to shift timing risk onto the government at some point thus making primary insurance more affordable and available. He thought the attachment point probably should be based on annual claims, not event-specific claims. He discussed various ways of calculating it, including a single dollar figure, percentage calculations and probability-based attachment points.

Mr. Litan suggested that a federal plan be pre-funded with recoupment of extraordinary losses which would require federal borrowing. He thought that premiums could be set by an independent/quasi-independent agency similar to the Florida CAT Fund, and favored use of the federal plan to back-up state plans and encourage multi-state plans.

He observed that incentives for mitigation should be built in and that premiums should reflect success in establishing and enforcing strong building codes and zoning rules. He thought that a secondary market could be created for long-term mitigation loans.

Subsidies could be granted directly to low income households directly through state budgets rather than indirectly through rates of residual plans.

Mr. Litan concluded by saying that the federal layered plan would help ensure the availability of private insurance at actuarially appropriate rates that do not reflect unduly high costs of timing risk.

More insurance would reduce the need for federal disaster relief. Actuarially appropriate rates, reflecting mitigation, would lower the costs of future mega-disasters. He thought that the Florida CAT Fund demonstrated that the administrative complexities could be resolved without a huge bureaucracy and noted that a federal reinsurance program, if structured correctly, should be free of subsidy. He did not think that the Congress would grant tax deductions for private company catastrophe reserves because of the large federal budget deficits. He also thought that insurers still would have a timing risk even with such reserves.

Task Force members asked questions of Mr. Litan about the rate reduction possibilities of the proposed plan, mitigation incentives, various ways of finding a good attachment point including flexibility from state to state, probable opposition of the reinsurance industry to the proposed plan, exclusion of the federal flood program from the plan because of the flood program's extraordinarily high exposure, lack of enforcement of flood and other insurance policies by lending institutions because of the "securitization" of the mortgage market, possible use of local property taxing agencies for required insurance monitoring and related matters.

Mr. Litan observed that establishing the attachment point and whether the plan should be pre-event funded or post-event funded required difficult trade-offs but that making decisions and proceeding was better than continuing the status quo. On establishing the attachment point, he noted that a point that was too low would crowd out private reinsurance; setting it too high carries the risk of having private insurers getting hit very hard and not returning to the market. When the federal government comes to the table, it assumes the "timing risk" because it can create funds for paying claims whenever it has the will to do so. The TRIA program for terrorist risks is a good example of having the government provide back-up for a program with limited private exposure. Mr. Litan observed that it is impossible to set actuarially correct premiums for TRIA because there is not enough historical experience with the kinds of risks covered by TRIA to provide reliable information about the scope of risk. The government needs to decide how much risk it is willing to assume and then set a premium which will keep private companies in the market. Any amount is better than nothing. Any level is arbitrary and a result of judgment and political compromise.

Mr. Litan noted that mitigation incentives were a "must" to encourage property owners to reduce possible damage as much as possible. Premiums were a part of creating incentives since high prices, combined with mitigation credits, can encourage prevention activities. He thought that states should provide incentives to local governments that create and enforce strong building codes.

Mr. Litan did not think that the current federal flood program should be included in a national catastrophe fund since claims against it over the years, and possible future claims, are so high that private insurers will not participate in covering flood claims. He noted that requirements for flood and other residential insurance probably were not enforced because most mortgages no longer were held by the institutions that originated them but instead were securitized and sold in secondary markets. Mr. Hartwig observed that his studies of the consequences of an "all perils" policy, including flood, showed dramatic raises in rates. Keeping flood out makes rates more reasonable.

Chair McCarty noted that the federal government had provided inadequate funding for updating flood maps making it difficult to determine who should and should not be covered by flood insurance.

3. Presentation on future capacity needs and adjustments to the Florida Hurricane Catastrophe Fund. The Chair introduced Mr. Jack E. Nicholson, Senior Officer of the Florida Hurricane Catastrophe Fund (FHCF), who stated that the purpose of the FHCF since its inception in 1993 was to add insurance capacity to the Florida market and to stabilize the market. He noted that these purposes had been achieved. He observed that the FHCF was not intended to be used to depopulate Citizens Property Insurance Corporation (Citizens), reduce residential insurance premiums or achieve other purposes than those stated. Its current capacity is \$15 billion with an aggregate retention of \$4.5 billion. Companies pay premiums based on the percentage of the risks they write in the state. FHCF premiums are one-third to one-fourth of the cost of private reinsurance. Losses are paid “as soon as practicable” after reports are received by the FHCF; funds also are advanced to “limited apportionment companies” to cover incurred losses. The FHCF now is exhausting the cash available to it for 2006 and beyond and, as a result, will not be able to advance funds to companies for losses in 2006.

The FHCF requires all residential property insurers in the state, including Citizens, to report exposures as of June 30 by September 1 annually. FHCF charges them premiums for that year for the reinsurance it provides based on their exposure as a percentage of the total Florida market. FHCF coverage is determined by these premiums: insurer retention is a multiple of the premiums and the limit of coverage, or payout, is a multiple of the premiums.

Mr. Nicholson explained that the FHCF’s risk exposure in 2005 grew by 21.5% over its exposure in 2004 because of loss experiences, Florida’s population increases and building boom and increases in property values. More and more of this risk over the years has been transferred to the state’s policyholders because they are a cheap source of funding compared to private reinsurance.

Issues facing the FHCF include an increase in retention from \$4.5 billion to \$5.4 billion because of the FHCF’s 21.5% increase in risk exposure; whether the retention should be measured for a single event, an entire season or some combination; and the total limit of the FHCF which now stands at \$15 billion. He observed that as bonding capacity and its use increased, bonding risks and the need to repay the bonding debt were transferred to Florida’s citizens. He was concerned that the ability to do so was reaching its limits. He discussed several options and distributed a memorandum, dated November 28, 2005, that he has sent to members of the FHCF Advisory Council and a letter from the Advisory Council, dated December 14, 2005, to the Trustees of the State Board of Administration.

Mr. Nicholson stated that the greatest need of the FHCF at this time is rapid cash build-up, and that they are going to ask for a 25% load or perhaps more. He also noted that he was concerned about “raids” on the FHCF that would divert cash from its primary purposes. He thought that Constitutional protection was needed to preserve the FHCF’s assets. He also thought that mitigation and retrofitting should be strongly encouraged to reduce damages but that Florida’s risk exposure was growing so rapidly that we’re “not making a serious difference” through mitigation alone.

Chair McCarty noted that the Office of Insurance Regulation (OIR) supports “lock-up” of the FHCF through Constitutional protection. He thought that the Task Force would recommend rapid cash build-up.

4. Future Capacity Needs. Mr. Ray Spudeck, Senior Research Economist with OIR, addressed the Task Force on projected future capacity needs for insurance in the state and distributed a presentation entitled “Future Capacity Demands” to members of the Task Force.

Mr. Spudeck reviewed population estimates for Florida which show dramatic growth. He also illustrated estimated insurance policy growth by type such as homeowners, farm owners, mobile home owners, condominium unit owners, tenants, apartment buildings and various associations and wind-only policies by type. They also are projected to grow substantially along with projected premiums at various rates. Projected minimal net new additional gross capital needs range between \$1.1 billion and \$1.5 billion per year. Minimal net primary capital needs range between \$450 million and \$600 million per year. These capital needs must be met while competing in a worldwide market where demand also is very high.

Mr. Spudeck noted that Florida can “shape the risk” by building structures according to very strict building codes that reduce loss exposure.

Task Force members discussed capacity matters with Mr. Spudeck and noted that large storms had required most of the resources available to private companies, Citizens and the Florida Hurricane Catastrophe Fund with little left to replenish the base and provide new funding for growth. Mr. Spudeck noted that a major question is whether the FHCF is where it should be in the “risk spectrum”: whether it should be exposed to “first dollar risks”, to “tail loss risks”, or somewhere in between.

5. Standard Policy Committee Briefing. Mr. Rick Mahler, Deputy Chief of Staff, Department of Financial Services, briefed Task Force members on the work of the Standard Policy Committee that he chairs. He noted that the Committee was striving to agree on basic information and language for consumers so that they could compare offerings from various insurance companies.

Mr. Mahler observed that the Committee was not in favor of using standard policy language at this time because the matter has not yet been thoroughly studied, especially how particular language may have been tested in the courts. Using different language than a company normally uses may change that company’s offering and could result in increased rates because of the uncertainty of how the language might be interpreted. The Committee retained the goal of finding acceptable language but wanted additional resources to study the issue more thoroughly.

Mr. Mahler noted that the intent of the legislature was to provide an easy read for consumers to understand their policy. The Committee was prepared a “checklist” as required by SB 1486 which was distributed to Task Force members. The checklist accomplishes the legislative goal by providing a tool that is easy to understand and can be applied to current insurance policies. Further the checklist can clarify confusing areas of coverage, such as pool enclosures and deductibles, inflation guards and law and ordinance coverage. To prepare the checklist, the Committee used the initial draft prepared by the Office of Insurance Regulation and expanded it to include consumer issues. Another of the Committee’s charges was to develop a standard policy with easy to understand language. The Committee analyzed versions of policies used by private companies with various endorsements. The checklist is an incremental approach to developing a simple format for insurance policies that would be easy to read and understand. The Committee has prepared a guide that includes coverage standards

to assist consumers who are shopping for insurance. These recommendations will be provided to the Legislature next week.

Task Force members observed that the requirements for policy language changes could result in substantial additional expenses for private companies. Mr. Burgess observed that the Committee, on which he serves, had received a great deal of input from the insurance industry. Task Force members asked if the goals of finding more standard policy language and using checklists could be accomplished through rules promulgated by OIR rather than by statute. Mr. Mahler noted that the OIR Commissioner did not have that authority.

6. Status of SB 1486 Implementation. Mr. Dave Foy, Chief of Staff, Office of Insurance Regulation, briefed the Task Force on steps taken to implement the requirements of SB 1486. A written summary of these requirements was distributed to Task Force members. Mr. Foy reviewed the status of major implementation areas.

On Section 3, Standard Rating Territory Plan, Mr. Foy noted that a final draft study from the Insurance Services Office (ISO) will be completed by the end of this week and presented to the Legislature next week.

On Section 5, Insurance Rating Law, he noted that the requirements should result in greater transparency for rate increase proposals. He observed that OIR was interpreting the requirement for hearings liberally so that increased public attention would occur. He also noted that the Monroe County pilot program may result in a rule concerning a reasonable degree of competition.

On Section 6, Public Hurricane Loss Model, he observed that Florida International University had developed a computer hurricane model using \$2.8 million in state funds and additional in-kind contributions. This model can be used to test the accuracy of results of private proprietary models used by insurance companies for their rate filings.

On Section 11, Checklist of Coverage, Mr. Foy reported that OIR held a Rule Workshop on September 16, 2005, and a Rule Hearing on January 5, 2006. Comments were provided by insurers, consumers and the Consumer Advocate. The draft checklist has been completed and published on OIR's website. <http://www.floir.com>.

On Sections 12 and 13, Hurricane Deductibles, he reported that language about deductible options must be displayed prominently in 12 point font, or a font larger than other type on the page, to ensure that the consumer knows what the deductible is.

On Section 14, Building Code ("Law and Ordinance") Coverage and Replacement Cost Coverage, he reported that various coverage percentages were proposed. He also observed that the industry was being surveyed to determine practices on law and ordinance coverage.

On Section 18, Sinkhole Claims, he noted that the major issue is whether a separate sinkhole facility should be created. A committee studying this issue has asked for an extension. Task Force members discussed a study prepared by Florida State University on sinkholes and noted that sellers of real property must disclose paid sinkhole claims to buyers. Increasing deductibles for sinkhole claims

have been discussed as well as narrowly defining sinkholes to eliminate cracking and settling claims. Mr. Foy noted that data about sinkhole incidence was not very accurate because reporting to a database maintained by the Department of Environmental Services was not required under Florida law in the past.

On Section 22, Notice of Premium Discounts for Hurricane Loss Mitigation, Mr. Foy noted that a form is now displayed on OIR's website at <http://www.foir.com>.

7. Perspective and Recommendations by Florida Alliance on Hurricane Insurance. Mr. Sam Miller, Vice President, Florida Insurance Council (FIC), and Scott Johnson, Executive Vice President, Florida Association of Insurance Agents (FAIA), briefed the Task Force on the Florida Alliance, a joint effort of the FIC and FAIA. They distributed a written summary of their presentation.

Mr. Miller reported that the Alliance was a joint project between FAIA, FIC and consumer groups to address matters impacting Florida's hurricane insurance marketplace and that they had reached consensus on a set of eight broad principles: Citizens' rates should be sound and designed to minimize the possibility of future assessments; retain the current boundaries of Citizens' high-risk (wind-only) area; Citizens should honor the letter and spirit of the law requiring service levels comparable to the voluntary market; Citizens should be required to develop contingency plans for large numbers of emergency adjusters, but do not subject Citizens' claims settlement process to artificial deadlines; the Legislature should consider reinstating the servicing carrier approach to policy processing for Citizens; adopt an amendment to the Florida Constitution to limit the use of CAT Fund assets to the payment, financing, and administration of catastrophic hurricane loss obligations and to provide that any legislative appropriations from the CAT Fund must be for hurricane loss mitigation purposes; building codes and code enforcement in high-risk areas should be strengthened in order to assure that newly constructed properties are more hurricane-resistant; less regulation, not more, is the ultimate long-term solution to a robust hurricane and property insurance market for Florida, as it will encourage competition, ingenuity, product availability, and increased choice that will ultimately benefit consumers.

Mr. Miller also distributed a memorandum, dated January 17, 2006, to the Task Force from the FIC concerning implementation of SB 1486.

Task Force members questioned Mr. Miller and Mr. Johnson on specific issues related to these eight principles, including proposals to eliminate the Panhandle "carve-out" for building codes, how to define a "high-risk area", the "servicing carrier" approach when carriers no longer had "skin in the game" as they did when the joint underwriting association first was established, contracting Citizens' boundaries or expanding Citizens' ability to write non-wind policies, quota shares, new rules affecting the insurance industry, the establishment of I-95 and US-1 as a boundary for defining "high-risk areas" and other issues.

8. Review of Data Requests by Task Force. Mr. Rod Petrey, President of the Collins Center for Public Policy, Inc., reviewed several pending data requests that members of the Task Force had made:

A. Residential Rate Comparisons. Mr. Ray Spudeck described comparisons of premiums by three anonymous private companies for three Florida counties and comparisons of Florida rates to those of other cities throughout the country. He distributed a written comparison document. Chair McCarty noted that he would be interested in comparing Citizens' premiums, both current and proposed premiums in the same three Florida counties, to the private company premiums. Mr. Spudeck also distributed an excerpt from the National Association of Insurance Commissioners (NAIC), "2003 Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report", that provided comparative average premiums for various states.

B. Citizens' Loss Mitigation Credits. Ms. Susanne Murphy, Citizens' Corporate Counsel, distributed copies of a document that described loss mitigation credits offered by Citizens to its customers that was implemented in 2000. She noted that policyholders requesting shutter credits must submit a certificate signed by the installer. Citizens also performs spot checks to verify actual mitigation activities. Credits are not available for the 75,000 mobile homes they insure. The data indicated that 40% of HRA policyholders receive credits in excess of \$73.6 million with a maximum credit of \$32,878 and average credit of \$457. In addition, nearly 11% of PLA policyholders receive credits of \$8.3 million with a maximum credit of \$4,919 and average credit of \$242. Over 6% of CLA policyholders receive credits of \$816,000 with a maximum credit of \$88,410 and average credit of \$4,122. Vice-Chair Chapman-Henderson complimented Citizens and noted that it is ahead of the rest of the industry in offering, promoting and actually using these mitigation credits. Ms. Murphy advised that Citizens is going to send a second communication to all 800,000 policyholders advising how rates are set and explaining mitigation improvements and credits.

C. Citizens' Depopulation Status. Ms. Murphy reviewed a one-page document that summarized key facts concerning depopulation of Citizens since 2003. She noted that a total of 483,905 policies had been removed since 2003 for a total exposure reduction of \$92.5 billion. Task Force members questioned Ms. Murphy about Citizens' proposed rate structures and she noted that they should assume that Citizens' premiums would be the highest in the market.

D. Limiting Citizens' Coverage Amounts. Ms. Murphy distributed charts showing the impact on Citizens' rates, exposure and PML of limits of \$1 million and \$500,000 on residential coverage. Ms. Murphy noted that Citizens has had a limit of \$1 million for PLA policies for 5 years. Ms. Murphy also indicated that they are exploring some depopulation strategies for commercial accounts. She advised that she believes that Citizens' commercial/residential rates are lower than the surplus lines market and that they hope to make a commercial filing during first quarter 2006. Ms. Murphy was asked to provide the Task Force with data on how much Builders' Risk coverage they write.

E. Combining Citizens' Accounts. Ms. Murphy then distributed a memorandum, dated January 13, 2006, from John Forney of Raymond James, financial advisers to Citizens, that described the background of Citizens' several accounts (HRA, PLA, CLA) and concluded that the preferred alternative for Citizens, if it were being structured from the ground up with no pre-existing financial or legal obligations, would be a combined account structure. A combined account structure may result in reduced assessments, increase the diversity for Citizens' portfolio and probably decrease capital costs slightly. Achieving the combination has substantial costs of time and money. The

indebtedness of the three accounts requires that the terms of the debt be amended if the accounts are combined. To do so, Citizens must contact individual debtholders who are widely dispersed. Trying to locate them and obtain their agreement makes an amendment process uncertain at best. Paying off the debt is possible but expensive. Despite these difficulties, in the long run, Mr. Forney concluded that this still was the best alternative, even considering the practical difficulties and costs associated with the process in light of existing constraints. Mid-2007 would probably be the earliest that all steps of a plan of combination could be executed.

F. Lessons Learned from Federal Flood Insurance Program. Mr. Petrey distributed an issue paper on this topic, noting that the Federal Flood Insurance Program was primarily sold and administered by private insurance companies but did not appear to offer positive lessons for administration of Citizens in Florida.

G. Tracking Policies Remaining at Citizens Because of “Consumer Choice”. Mr. Petrey also distributed an issue paper on this topic, observing that no effective monitoring system existed and suggesting that Citizens and private companies should recommend an effective tracking system.

9. Review and Discussion of Initial Draft Recommendations. Chair McCarty and Mr. Spudeck presented members of the Task Force with draft recommendations for several of the major issues assigned to the Task Force by the Legislature. The Task Force discussed and revised them. They are numbered below with the same numbers used in SB 1486:

(5)(a) Whether this state currently has sufficient hurricane insurance capacity to ensure the continuation of a healthy, competitive marketplace, taking into consideration both private sector resources and public sector resources.

Task Force members observed that the suggested findings and conclusions may be painting a more positive picture of the marketplace than actually exists and that continued recapitalization of private companies is not certain. They asked whether new firms entering the market offset firms that have left or have stopped writing new policies.

(5)(b) Identifying the future demands on this state’s hurricane insurance capacity, taking into account population growth, coastal growth, and anticipated future hurricane activity.

Task Force members agreed that presentations made to them on capacity matters illustrated future demands on capacity.

(5)(c) Whether the Florida Hurricane Catastrophe Fund fulfilled its purpose of creating additional insurance capacity sufficient to ameliorate the current dangers to the state’s economy and to the public health, safety, and welfare in its response to the 2004 hurricane season.

Task Force members noted that the purpose of the CAT Fund was to create additional capacity. All agreed that the CAT Fund had increased capacity “if compared to what it would be like without the CAT Fund”. They requested strengthening of the statements about the strains caused by the combined

losses of the 2004 and 2005 seasons. They also noted that there was a need to address the “multiple event season” more completely since it was uncertain if capital would continue to flow into the state if such events continued.

(5)(d) The extent to which the growth in Citizens Property Insurance Corporation is attributable to insufficient insurance capacity.

Task Force members noted that there is growing evidence that large amounts of Citizens’ growth are coming from mobile homes, sinkhole coverage in the Tampa Bay area, and older homes. Growth also is being caused by the overall growth of the numbers of people and structures in the state and the large increases in values of those structures. Not all growth is occurring in wind-only areas; increases in those areas may be caused to some extent by sinkhole coverage. They discussed sinkholes extensively and noted that the problem had not been resolved. They observed that an FSU study of the sinkhole issue discussed various ways to reduce the “frictional” costs of sinkhole coverage. Increases in Citizens’ rates may limit these exposures and shift them to some private companies.

(5)(e) The extent to which the growth trends of Citizens Property Insurance Corporation create long-term problems for property owners, buyers, and sellers in this state and for other persons and businesses that depend on a viable market.

Task Force members noted that, with Citizens’ rate increases, the state could see a return to the private market for a number of risks now covered by Citizens with the result that Citizens could become a true residual market provider.

(5)(f) The operation and role of Citizens Property Insurance Corporation, including:

1. How to ensure that the corporation operates as an insurer of last resort which does not compete with insurers in the voluntary market, but which charges rates that are not excessive, inadequate, or unfairly discriminatory.

Task Force members agreed that they did not wish to restrict Citizens’ eligibility to homestead properties but instead agreed with the current surcharge for seasonal occupancies. They thought that a semi-annual, rather than quarterly, review of rates was sufficient. They discussed a proposal that would limit the amount of time a property could remain with Citizens unless mitigation was performed but wanted to give further thought to how they could track this information to prevent properties from changing hands simply to avoid the requirement to mitigate. They also thought that resources for retrofitting were very limited and that linking Citizens to retrofitting grants and loans could provide incentives for policyholders to stay with Citizens instead of moving to private companies.

2. Whether the bonuses paid by the corporation to carriers taking policies out of the corporation provide a cost-effective means of reducing the potential liability of the corporation.

Task Force members thought that Citizens should be encouraged to continue to depopulate through the bonus system and other means and should report its progress.

3. Whether the Consumer Choice law should be repealed or amended to ensure that the corporation serves as the insurer of last resort.

Task Force members did not reach consensus on the Consumer Choice matter. Several thought that moving to actuarially sound rates would encourage more policyholders and agents to agree to move policies to private companies. They also noted that some “captive carriers” are stepping forward to help with take-outs.

4. Whether coverage amounts should be limited.

Task Force members agreed that it should not cover residential structures valued at \$1 million or more for coverages A & C on HO-6 forms and Coverage A for HO-3 forms. They agreed that Citizens should study whether the limit should be further decreased to \$500,000 and whether these dollar limits should be indexed so that they change over time.

5. Whether the corporation has hired an adequate level of permanent claims and adjusting staff in addition to outsourcing its claims-adjusting functions to independent adjusting firms.

Task Force members noted that it was difficult to assess the adequacy of Citizens’ in-house and contract staffing when its numbers of policies were declining and thought that other measures should be used to measure adequacy, such as numbers of complaints and claims processed. They asked that this section be restated.

6. The effect of reducing or expanding the areas that are eligible for coverage in the high-wind, high-risk account.

The Task Force agreed that the windpool areas should not be reduced immediately to permit time for the effect of Citizens’ higher rates to be felt and to assist in stabilizing the private market. They agreed that the actual boundaries of these areas be reviewed so that they might be established with more scientific evidence than was originally available or used.

Chair McCarty noted that he did not support the expansion of the wind pool statewide.

7. Whether the corporation should purchase reinsurance or take other actions that reduce the potential for debt refinancing and deficit assessments.

Task Force members agreed that Citizens should voluntarily purchase reinsurance as needed based on sound business decisions of its Board of Governors after reviewing risk exposures, other available resources and costs. A requirement that Citizens accumulate capital for reserves was a different issue that Task Force members agreed should be studied.

8. An evaluation of the infrastructure and administration of the corporation and how to improve service, claims handling, and communications and the exchange of information with agents of policyholders of the corporation.

The Task Force discussed ways to measure Citizens' performance, including uniform industry standards and comparisons to the expense ratios of private companies. They noted that there were difficulties in comparing Citizens' unique experiences and requirements with more predictable private company activities.

10. The Cost Effectiveness of Disaster Mitigation. Mr. Brent Woodworth, Chair of the National Institute of Building Sciences Multihazard Mitigation Council, addressed the Task Force on findings of a study on savings produced by effective mitigation activities. He distributed the findings from a study that examined FEMA grants over a ten-year period from 1993 to 2003 aimed at reducing future damages from earthquake, wind, and flood. The study found that such efforts reduce future losses and are cost effective. Key findings include:

- A dollar spent on mitigation saves society an average of \$4, with positive benefit-cost ratios for all hazard types studied.
- In addition to savings to society, the federal treasury can redirect an average of \$3.65 for each dollar spent on mitigation as a result of disaster relief costs and tax losses avoided.
- In each of the eight communities studied in depth, FEMA mitigation grants were a significant part of the community's mitigation history and often led to additional loss reduction activities.
- Mitigation is sufficiently cost-effective to warrant federal funding on an ongoing basis both before disasters and during post-disaster recovery.

Copies of the study are available at <http://www.nibs.org/MMC/mmcactiv5.html>.

11. Wind Resistant Homes, Old and New: The State of the Florida Housing Market. Dr. Robert C. Stroh, Director of the Shimberg Center for Affordable Housing at the University of Florida, briefed the Task Force on housing facts in Florida and building materials that are resistant to hurricane wind and water damage. Dr. Stroh reported that Florida grew in population by 24% from 1990 to 2000. The population is getting younger. Residents over the age of 65 fell by 1% during that time period while residents under 18 grew by 27%. About 33% of new residents were foreign born, resulting in growth of the foreign born population in the state from 13% to 17%. Miami-Dade and Broward counties each increased over 300,000 people in that decade with large percentage increases of 60%-to-74% in the smaller counties of Flagler, Sumter, Collier, Wakulla and Osceola. Florida has a mix of housing types with dominance of single family homes that make up 58% of the state's total housing units. Multi-family housing is concentrated in the large urban areas and condo ownership is limited primarily to the coastal areas. Accurate data is hard to find on manufactured housing, including mobile homes. Single family housing has an average age of 32 years, with the average in Pinellas County at 34 years. Housing age of 40 years is regarded as the age when serious repair or remodeling work begins to occur. Florida has two primary housing markets: large urban areas and coastal counties with high density, multi-family and condominium ownership; and small, rural inland counties with low density, single-family, and manufactured units.

Dr. Stroh noted that hurricane training centers have been established in a number of counties throughout the state and that more are being established. These centers provided information and training about building materials and the Florida Building Code's standards and requirements. He noted that building code requirements are minimum requirements; they should not be regarded as providing maximum protections in exposed areas.

Dr. Stroh described retrofitting with storm shutters and impact resistant glass, different types of shutters, protective fabric, garage door reinforcement, safe rooms in houses, ways to attach roofs safety and how to encourage home buyers to seek out the best protective construction. He noted that the cost differential for a resistant home was about 7-to-10%.

12. National Conference of Insurance Legislators (NCOIL) Perspective. Florida Senator Steven A. Geller addressed the Task Force on the work of NCOIL on important hurricane insurance issues. He noted that the national catastrophe fund plan was an excellent idea and was more likely to pass Congress than tax-deferred reserves for insurance companies. He discussed several issues related to the proposed national fund, including the attachment point, whether or not flood insurance would be included, adequacy of current rates, and pre-event and post-event funding. Senator Geller suggested that the national fund would be more saleable if private companies could promise reductions in rates if it were passed. He noted that NCOIL has adopted a position in favor of tax-free catastrophe reserves for insurance companies and favored a national disaster fund. He thought that most experts in the field supported the establishment of tax-free reserves but that Congress probably would not pass it.

On the national disaster fund, Senator Geller said that he liked the TRIA model with private participation up to a set dollar or percentage level (attachment point), backed by national funding. The triggering point could float from state to state, depending on unique circumstances. He thought that the federal government should take a substantial part of catastrophic liability off the states' hands so that consumer rates could be reduced. Whether there is pre-event funding or post-event funding, the result must avoid increases in consumer rates. He observed that a disaster of \$50-\$60 billion could be covered by existing private insurers and reinsurers. Beyond this amount, government assistance will be needed. Because the possibility exists for events that could cause \$100-\$200 billion in damages, steps need to be taken now to prepare for that possibility. All of this must be done while rates to consumers get lower.

Senator Geller thought that retrofitting of existing structures for disaster protection should be encouraged and that it would probably result in the increase in value of the home. Because property taxes probably would increase as values increased, Senator Geller stated that the Legislature should consider property tax relief for the amount of increased value of a home resulting from retrofitting.

13. Preparing For and Protecting American From Catastrophe. Mr. James Lee Witt, National Co-Chair of Protect America.org and former director of FEMA, addressed the Task Force on the consequences of major disasters and on national plans. He recommended that individual states establish catastrophe funds similar to Florida's fund and be backed by a national fund. He suggested that efforts be accelerated to establish a rating system for disaster resistant homes and to encourage home buyers to use the system. He noted that building codes should be minimum systems and that consumers should demand more than the minimum.

14. Public Testimony. Chair McCarty asked for public testimony on both days of the meeting. Hearing no requests, he moved to the next agenda item.

15. Meeting Schedule. The Task Force is scheduled to meet on January 30 and 31, 2006, at the University of Central Florida in Orlando, Florida. Chair McCarty noted that a draft of a report would be transmitted to Task Force members in advance of the meeting.

Chair McCarty thanked Florida International University and the Collins Center for successful meeting arrangements.

Chair McCarty adjourned the meeting at 2:00 p.m. on Thursday, January 19, 2006.