

Overview of the Florida Hurricane Risk Market

Florida Office of Insurance
Regulation

August 24, 2005

Purpose

- Hurricane Risk is what makes the Florida Property Insurance Market Unique and why this Task Force was assembled
- This Overview is intended to provide context for the Task Force

Hurricane Risk and Other Catastrophic Risks

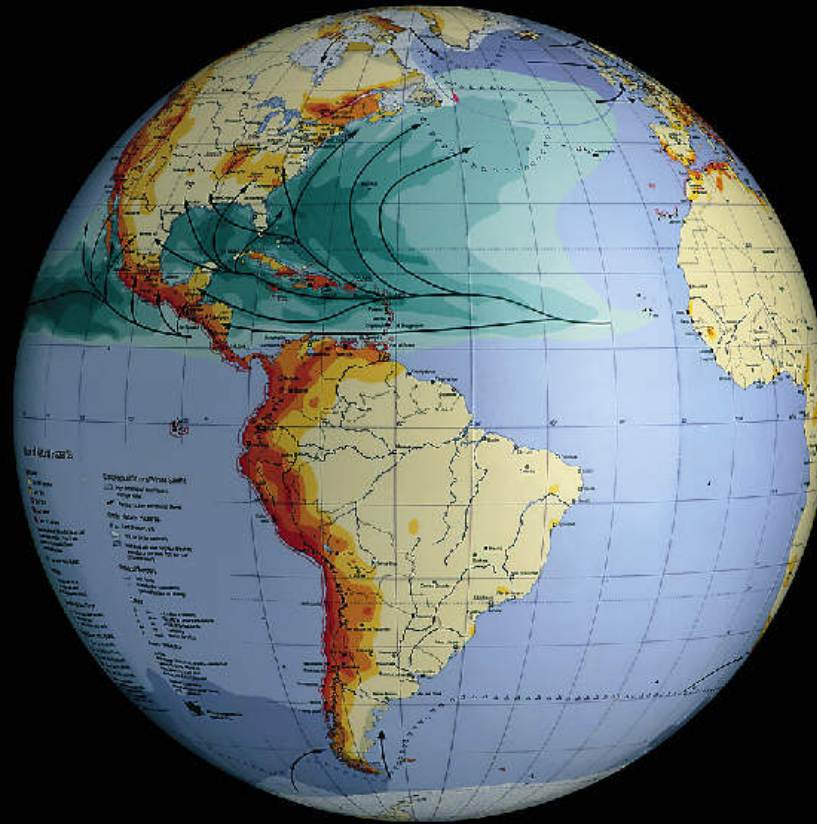
- ***Catastrophic Risk***: A function of frequency, severity, and correlation
- “***Risk of Ruin***” for suppliers of capital that take the risk
- Hurricanes are not the only natural source of catastrophic risk, a ***global market*** is developing
- In some cases, these are considered insurable, in other cases not.

Global Catastrophic Risk



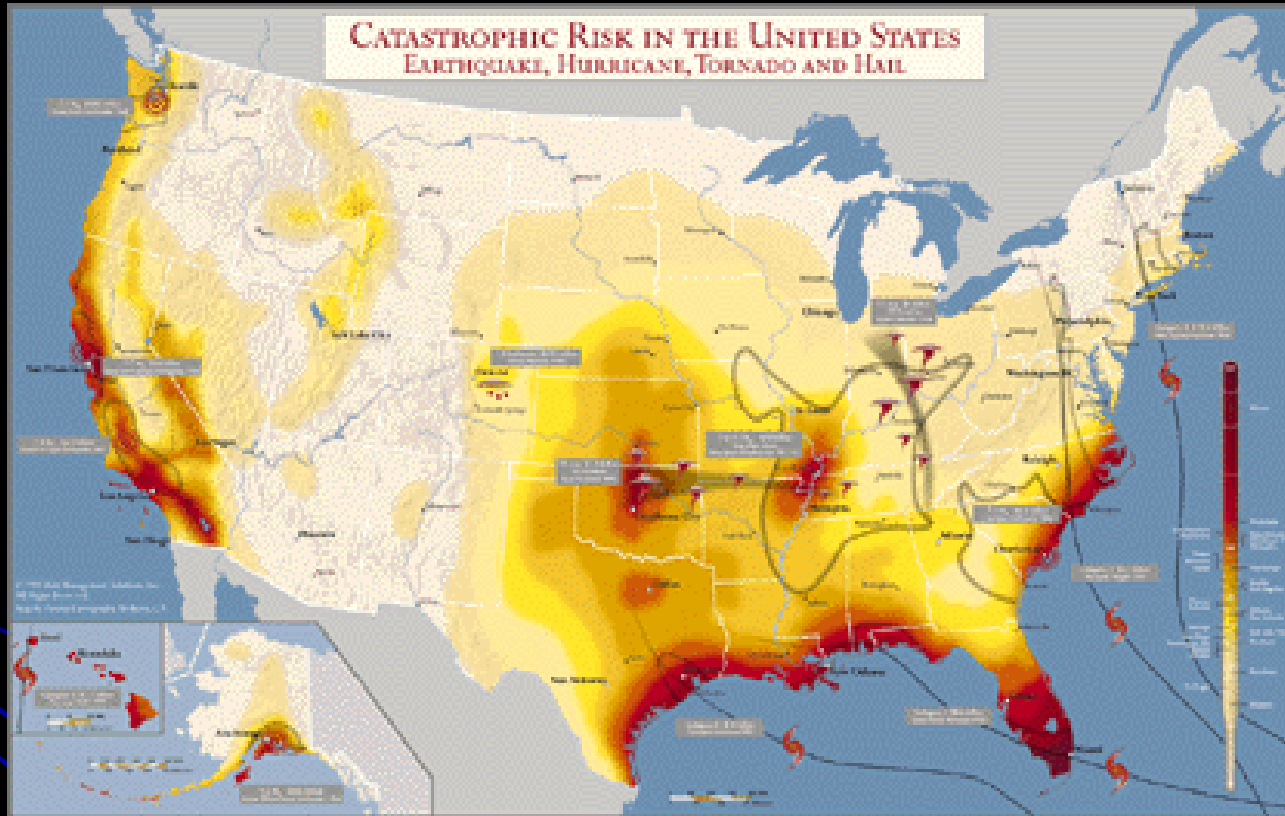
MunichRe World Risk Map

Western Hemisphere Catastrophic Risk



MunichRe Risk Map

US Catastrophic Risk



RMS Risk Map

Catastrophic Insured Losses in the US

\$ Bil (2004)

\$30,000

\$25,000

\$20,000

\$15,000

\$10,000

\$5,000

\$0

1995

1996

1997

1998

1999

2000

2001

2002

2003

2004



Data From ISO

Insuring Catastrophic Risk

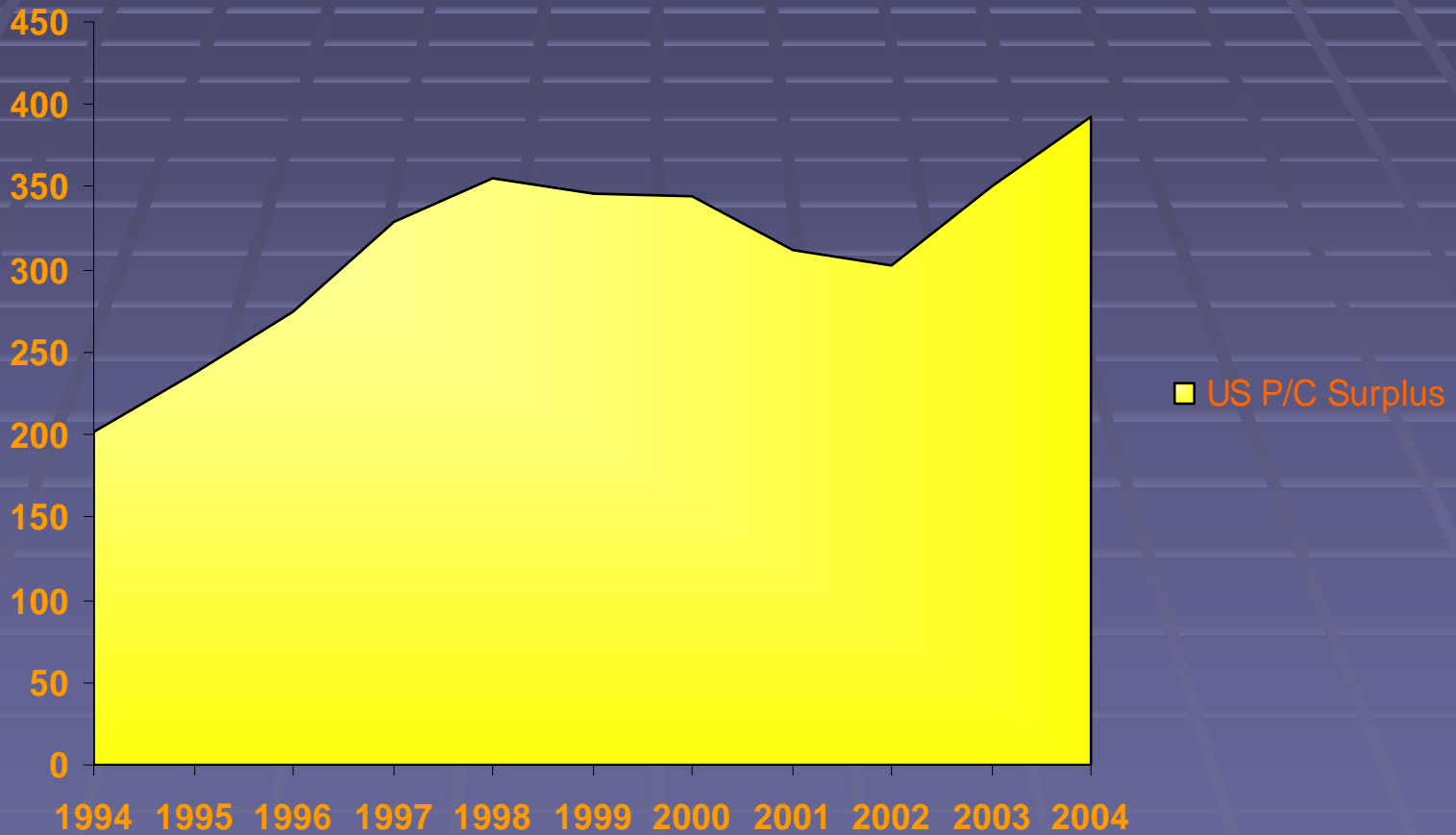
- The Property/Casualty and Reinsurance Industry
- Alternative Private Market Capital Sources
- Public Enterprises (federal, state and local government)

Insurance and Reinsurance

- For insurers, catastrophic risk is part and parcel of their core business,
- They have a finite and slowly growing national capital base
- Reinsurance addresses catastrophic risks specifically; amount available is cyclical.
- In 2003, global property reinsurance premiums \$53 billion (IAIS), non-life \$117

US Property/Casualty Insurer Aggregate Surplus

\$ Billion



Data: NAIC and ISO

“Alternative” Markets

- Catastrophe securities in existence since 1995. On average 10-15 transactions per year, transferring 1-1.5 billion in risk.
- Deal size per transaction between \$200-500 million
- Institutional and hedge fund investment demand strong, currently exceeding supply
- There have been other attempts with options and futures, not economically successful to date

Public Insurance Markets

- Beach Plans
- Catastrophe Funds and Authorities (CA FL HI)
- Other Residual Markets

Florida Hurricane Risk

- ***Frequency:*** Exogenous Meteorological Phenomenon
- ***Severity:*** Mixed, part meteorological, part coverage, part physical structure
- ***Correlation:*** demographics, building

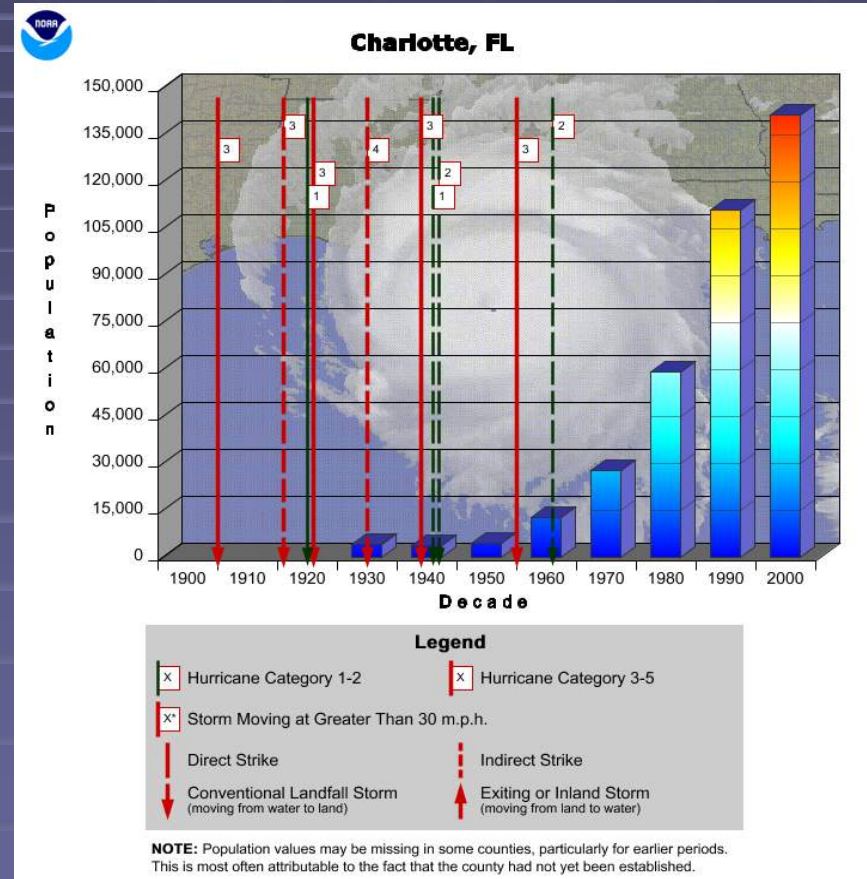
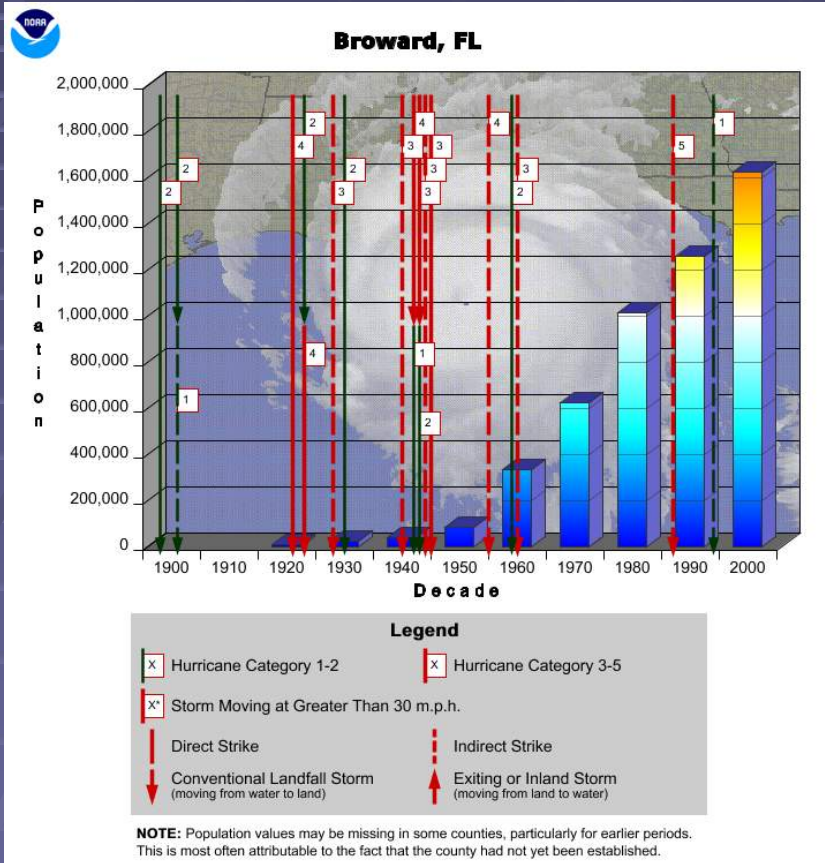
Frequency

- Best Evidence: Multi-decadal cycles, currently in active cycle (since 1995)
- Result invariant to current debate on global warming
- Imprecise Measurement and Identification
- Recall that Hurricane Andrew struck during a “low activity” phase of the cycle

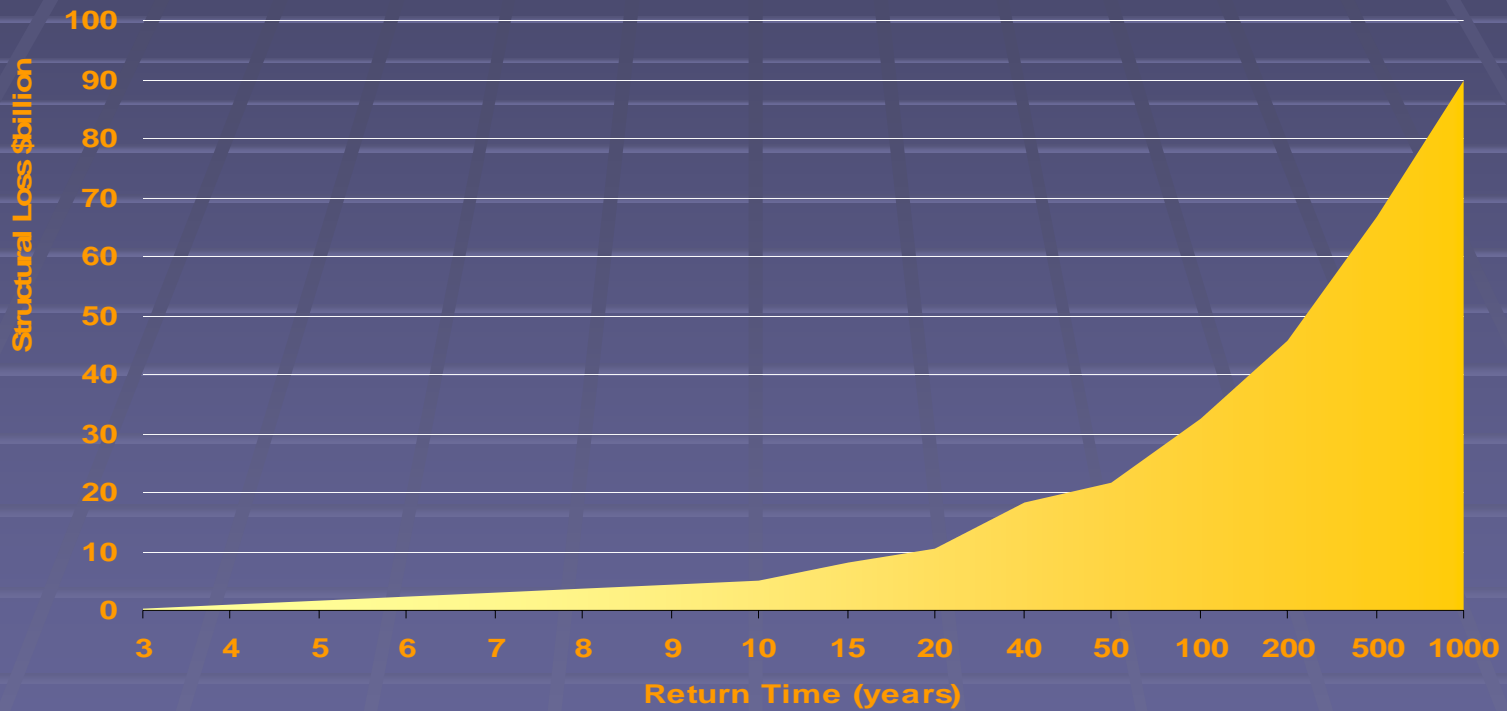
Severity

- ***Meteorological***: storms are expected to be stronger
- ***Coverage***: What is included in the insurance policy, deductible and policy limits
- ***Physical Structures***: Age of construction, location, and mitigation

Correlation



State Hurricane Loss Potential Profile



Data from FHCF 2005 Rate Report

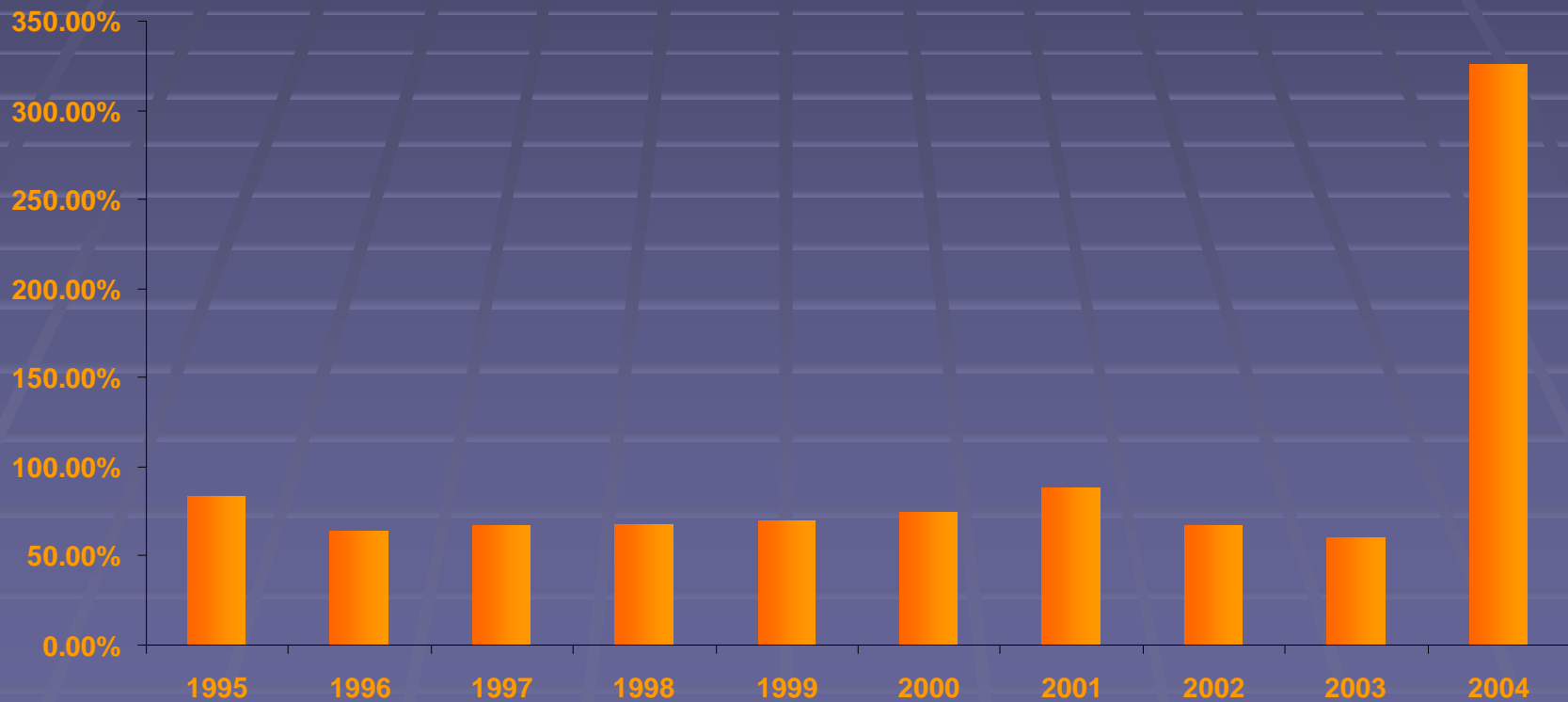
Florida Private Insurance Property Market

Date	No. of Reporting Companies	Number of Policies in Force (millions)	Premium Written (\$ billion)
12/31/00	251	5.5	3.5
12/31/01	232	5.6	3.8
12/31/02	228	5.1	3.8
12/31/03	210	4.9	4.2
12/31/04	184	4.99	4.8

Source: FL-OIR QUASAR

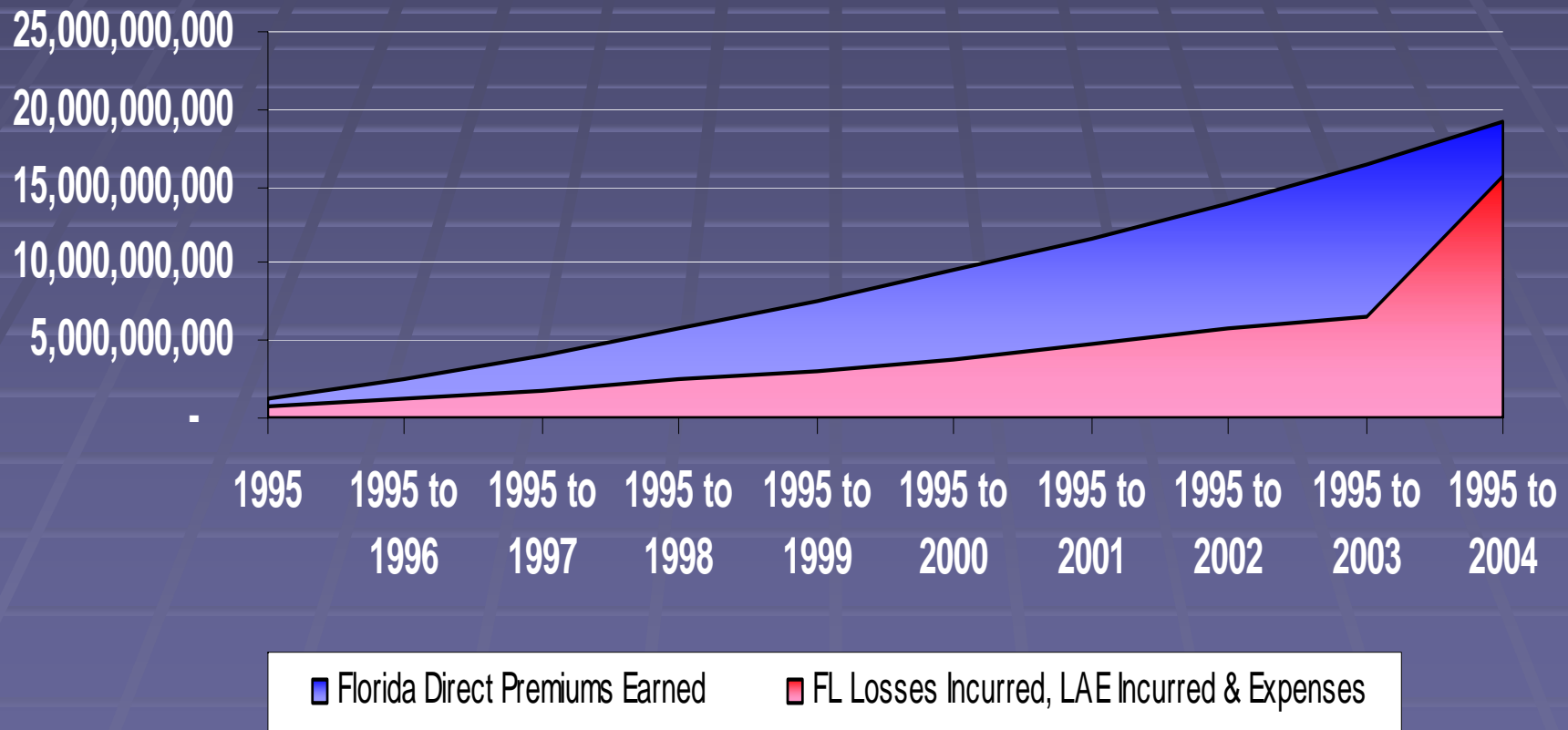
Florida Underwriting Experience

Combined Ratio- Florida's 13 Largest Groups



Data: NAIC Annual Statements

Historical Performance



Data: NAIC Annual Statements

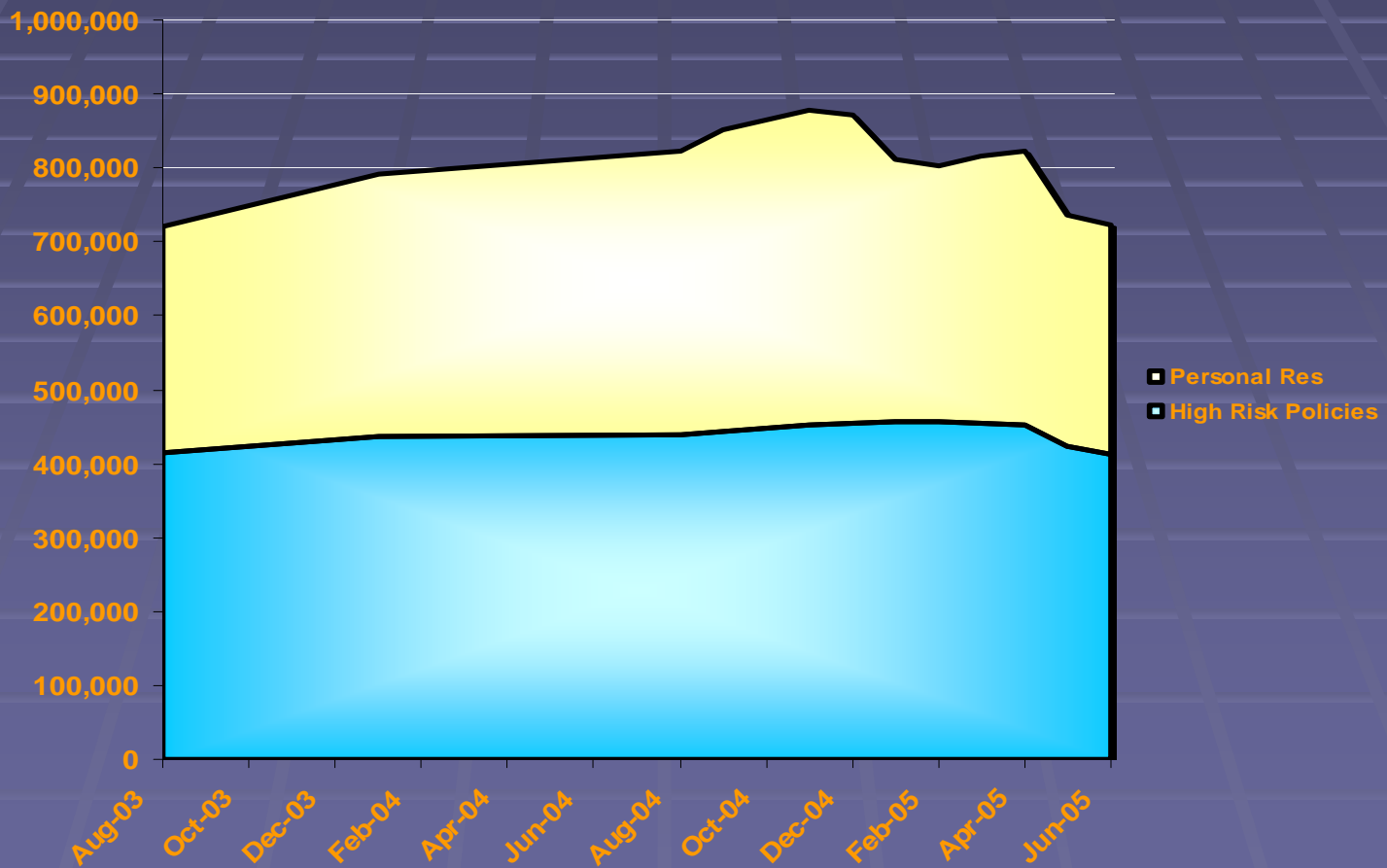
Issues

- Previous slide demonstrates the multi-year nature of catastrophe risk
- Current accounting and reserving not geared for these events
- Most other developed countries have tax-deferred catastrophic reserves, Rep Foley introduced HR 2668
- Many other countries have a national risk fund/pool

Public Insurance

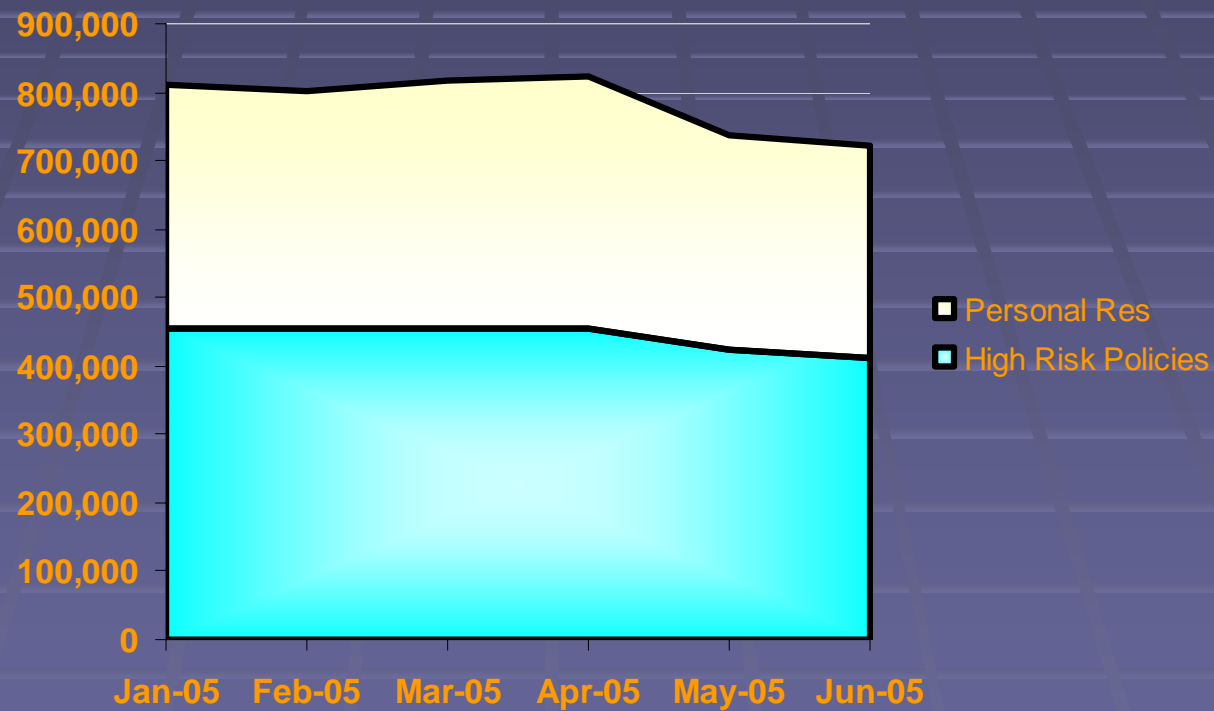
- Citizen's Property Insurance: a unique residual market mechanism
- Florida Hurricane Catastrophe Fund

Citizen's Policy Count



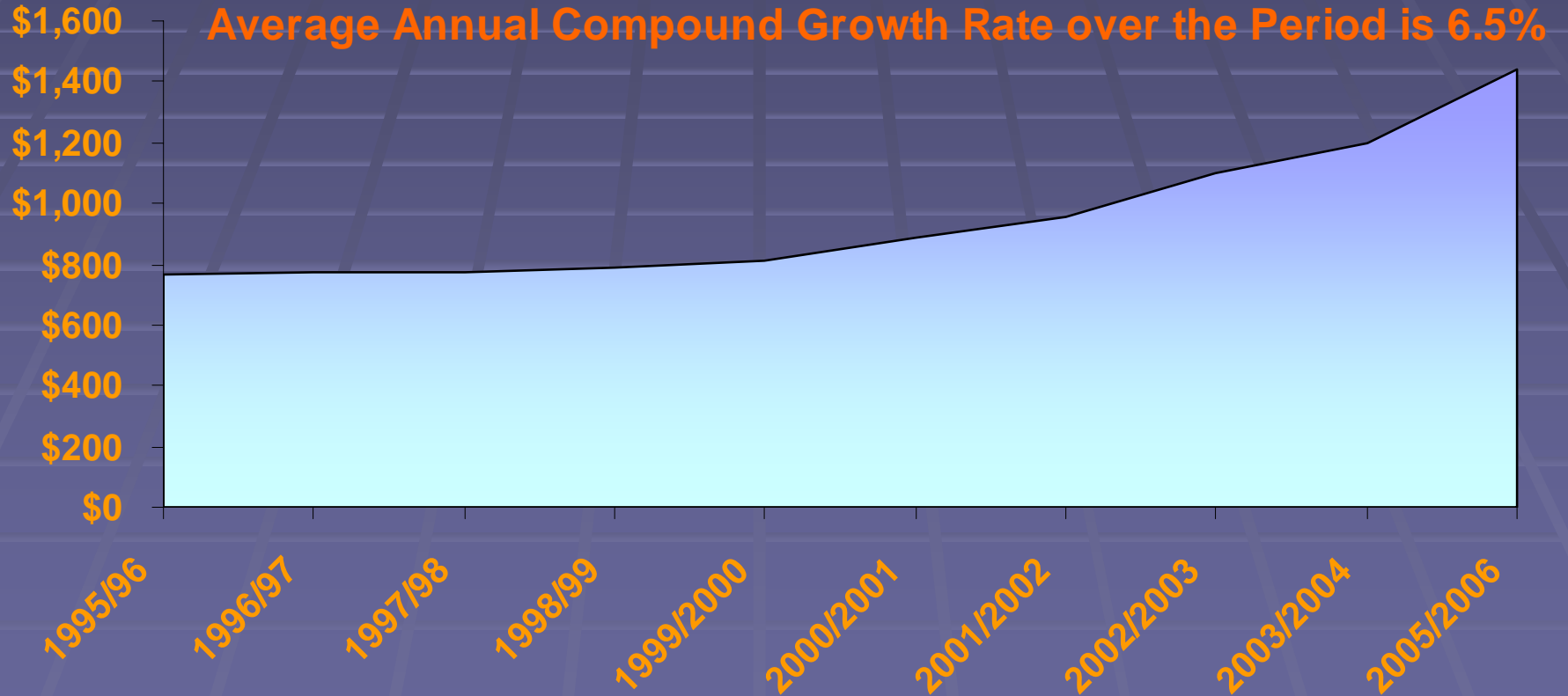
DATA: Citizen's Exposure Reports

Recent Citizen's Experience



DATA: Citizen's Exposure Reports

FHCF Exposure (in \$Billions)



Data: FHCF Rate Reports

Summary

- Florida Hurricane is one of many global catastrophic risks available in the market
- Traditional capital has not kept up with demand, especially in FL
- Alternative markets have not grown to meet the demands

Summary

- Accounting and tax policy does not suit catastrophic risk
- Other bodies have developed national plans
- Citizen's is a dominant footprint in the market
- Exposure load for FHCF growing steadily