

June 19, 2008

**Florida Hurricane Catastrophe Fund
Consumer Impact of Risk Transfer Products
2008 Hurricane Season**

Office of the Consumer Advocate
State of Florida

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SCOPE

This report has been prepared at the request of the Florida Hurricane Catastrophe Fund (FHCF). The purpose of this report is to provide estimates of the impact of the purchase by the FHCF for the 2008 hurricane season of the following risk transfer products: (1) private market reinsurance, or (2) a liquidity product such as a put option upon consumers' homeowners insurance premiums. The scope of this report does not include recommendations of any particular risk transfer products.

LIMITATIONS

The conclusions of this report are developed in the accompanying text and exhibits, which together comprise the report. The conclusions in this report are related to its stated purpose only and may not be applicable for other purposes. This report should only be distributed in its entirety and should not replace the due diligence on behalf of any third party. The author reserves the right to make or approve any changes to this report. Judgments as to the conclusions, indications, methods, and data contained in this report should be made only after studying the report in its entirety. The author is available to explain any matter presented herein and assumes that the user of the report will seek such explanation as to any matter in question.

CONCLUSION

Indicated private market rate increases are expected to be between .3% and 5.5% for the purchase of a liquidity product with a net cost to the FHCF of from \$25 million to \$500 million (Exhibit 1, Sheets 1 and 2). Indicated private market rate increases are expected to be between .6% and 10.5% for the purchase of private reinsurance in the TICL layer with a net cost to the FHCF of from \$62 million to \$1.05 billion (Exhibit 2, Sheets 1 and 2). However, the overall average indicated rate change for each primary market insurer in 2008 will be a combination of many factors including the estimated 5% to 25% reduction in private market reinsurance rates in 2008. The indicated decrease in 2008 private primary market rates from this 5% to 25% reduction in reinsurance rates is approximately 5.0% (Exhibit 3, Row (10)). However, some insurers may choose to use their savings in reinsurance costs to buy more reinsurance, which could result in rate increases for some consumers.

Therefore, the net effect of the FHCF's purchase of a liquidity product or private reinsurance, which will tend to increase private primary market rate indications, and the lower reinsurance rates paid by the primary market insurers, which will tend to decrease private primary market rate indications, will probably result in no significant change in primary market indicated rates in 2008 unless: 1) the FHCF selects private reinsurance purchase options D or E (largest available amounts of private reinsurance), or 2) insurers choose to use their savings in reinsurance costs to buy more reinsurance.

DATA RELIANCES

The accuracy of the data and information provided was relied upon without independent investigation or verification. The data was checked for reasonableness, and data considered inaccurate or incomplete was not used. However, if the data is subsequently found to be inaccurate or incomplete, the conclusions in this report may need to be revised.

EXHIBITS

- Exhibit 1: FHCF Purchase of Liquidity Product
- Exhibit 2: FHCF Purchase of Private Reinsurance in TICL layer
- Exhibit 3: Estimated Impact of 15% Average Reduction in Reinsurance Rates
- Exhibit 4: Private Market Net Cost of Reinsurance
- Exhibit 5: Modeled Average Annual Hurricane Losses



Exhibit 1
Sheet 1

State of Florida
Office of the Consumer Advocate
Evaluation of Primary Market Premium Impact
FHCF Purchase of Liquidity Product

(1)	(2)	(3)
Net Cost to FHCF	Estimated Impact on FHCF Rates	Projected Private Primary Market Premium Increase
25,000,000	1.91%	0.3%
50,000,000	3.82%	0.6%
75,000,000	5.73%	0.8%
100,000,000	7.64%	1.1%
125,000,000	9.55%	1.4%
150,000,000	11.46%	1.7%
175,000,000	13.37%	1.9%
200,000,000	15.28%	2.2%
225,000,000	17.19%	2.5%
250,000,000	19.10%	2.8%
275,000,000	21.01%	3.0%
300,000,000	22.92%	3.3%
350,000,000	26.75%	3.9%
400,000,000	30.57%	4.4%
450,000,000	34.39%	5.0%
500,000,000	38.21%	5.5%

Notes:

(1) - (2) Paragon Strategic Solutions, Inc. worksheet 6/14/2008 1:01 PM

(3) Exhibit 1, Sheet 2, Column (9)

State of Florida
Office of the Consumer Advocate
Evaluation of Primary Market Premium and Assessment Impact
FHCF Purchase of Liquidity Product

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Net Cost to FHCF	Citizens Share of FHCF Total Premiums	Net Cost Allocated to Private Market	Primary Market Expense and Profit	Fixed Expense	Variable Expense and Profit	Increase in Private Primary Market Premiums	2008 Private Primary Residential Premiums	Private Primary Market Premium Increase
25,000,000	36.7%	15,814,055	35.0%	6.3%	28.7%	22,179,600	8,000,000,000	0.3%
50,000,000	36.7%	31,628,109	35.0%	6.3%	28.7%	44,359,199	8,000,000,000	0.6%
75,000,000	36.7%	47,442,164	35.0%	6.3%	28.7%	66,538,799	8,000,000,000	0.8%
100,000,000	36.7%	63,256,218	35.0%	6.3%	28.7%	88,718,399	8,000,000,000	1.1%
125,000,000	36.7%	79,070,273	35.0%	6.3%	28.7%	110,897,998	8,000,000,000	1.4%
150,000,000	36.7%	94,884,327	35.0%	6.3%	28.7%	133,077,598	8,000,000,000	1.7%
175,000,000	36.7%	110,698,382	35.0%	6.3%	28.7%	155,257,198	8,000,000,000	1.9%
200,000,000	36.7%	126,512,437	35.0%	6.3%	28.7%	177,436,798	8,000,000,000	2.2%
225,000,000	36.7%	142,326,491	35.0%	6.3%	28.7%	199,616,397	8,000,000,000	2.5%
250,000,000	36.7%	158,140,546	35.0%	6.3%	28.7%	221,795,997	8,000,000,000	2.8%
275,000,000	36.7%	173,954,600	35.0%	6.3%	28.7%	243,975,597	8,000,000,000	3.0%
300,000,000	36.7%	189,768,655	35.0%	6.3%	28.7%	266,155,196	8,000,000,000	3.3%
350,000,000	36.7%	221,396,764	35.0%	6.3%	28.7%	310,514,396	8,000,000,000	3.9%
400,000,000	36.7%	253,024,873	35.0%	6.3%	28.7%	354,873,595	8,000,000,000	4.4%
450,000,000	36.7%	284,652,982	35.0%	6.3%	28.7%	399,232,794	8,000,000,000	5.0%
500,000,000	36.7%	316,281,092	35.0%	6.3%	28.7%	443,591,994	8,000,000,000	5.5%

Notes:

- (1) Paragon Strategic Solutions, Inc. worksheet 6/14/2008 1:01 PM
- (2) FHCF 2007/2008 Coverage Selections and Premium Calculations as of 3/31/08
- (3) (1) x (1 - (2))
- (4) Best Aggregates and Averages and actuarial judgment
- (5) Office of Insurance Regulation HB/SB 1A Cat Fund Presumed Factor Statewide All Lines Calculation TICL Layers Presumed Factor
- (6) (4) - (5)
- (7) (3) / (1 - ((6))). Assumes increase in FHCF premiums will be treated as fixed expense by primary insurers.
- (8) Based on actuarial judgment and:
9/30/2007 QUASR Report Direct Written Premium: Private Market: \$7,796,833,134 and Citizens: \$3,500,360,186.
6/30/2007 QUASR Report Direct Written Premium: Private Market: \$8,051,017,553 and Citizens: \$3,402263087.
- (9) (7) / (8)

State of Florida
Office of the Consumer Advocate
Evaluation of Primary Market Premium and Assessment Impact
FHCF Purchase of Private Reinsurance in TICL Layer

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Private Reinsurance Option	Percent Placed	Limit of Reinsurance	Net Cost to FHCF	Impact on FHCF Rates	Private Primary Market Premium Increase	FHCF Assessment Base	Annual Assessment Decrease Assuming Total Limits Loss	30 Year Assessment Decrease Assuming Total Limits Loss
A	10%	500,000,000	62,244,652	4.8%	0.6%	37,400,000,000	3,632,446	108,973,367
B	20%	1,000,000,000	139,489,305	10.7%	1.4%	37,400,000,000	14,529,782	435,893,469
C	40%	2,000,000,000	328,978,610	25.1%	3.3%	37,400,000,000	58,119,129	1,743,573,876
D	70%	3,500,000,000	663,212,567	50.7%	6.7%	37,400,000,000	177,989,833	5,339,694,995
E	100%	5,000,000,000	1,047,446,524	80.0%	10.5%	37,400,000,000	363,244,557	10,897,336,724

Notes:

- (1) - (5) Paragon Strategic Solutions, Inc. worksheet 6/14/2008 1:01 PM
- (6) Exhibit 2, Sheet 2, Column (9)
- (7) FHCF worksheet: "TICL Layer and Assessments"
- (8) 30 year bond of (2) x (3) at 6.0% annual coupon
- (9) 30 x (8)

State of Florida
Office of the Consumer Advocate
Evaluation of Primary Market Premium and Assessment Impact
FHCF Purchase of Private Reinsurance in TICL Layer

(1) Net Cost to FHCF	(2) Citizens Share of TICL Layer Premiums	(3) Net Cost Allocated to Private Market	(4) Primary Market Expense and Profit	(5) Fixed Expense	(6) Variable Expense and Profit	(7) Increase in Private Primary Market Premiums	(8) 2008 Private Primary Market Residential Premiums	(9) Projected Private Primary Market Premium Increase
62,244,652	42.6%	35,756,187	35.0%	6.3%	28.7%	50,148,930	8,000,000,000	0.6%
139,489,305	42.6%	80,129,064	35.0%	6.3%	28.7%	112,382,980	8,000,000,000	1.4%
328,978,610	42.6%	188,980,426	35.0%	6.3%	28.7%	265,049,685	8,000,000,000	3.3%
663,212,567	42.6%	380,979,764	35.0%	6.3%	28.7%	534,333,470	8,000,000,000	6.7%
1,047,446,524	42.6%	601,701,400	35.0%	6.3%	28.7%	843,900,981	8,000,000,000	10.5%

Notes:

- (1) Paragon Strategic Solutions, Inc. worksheet 6/14/2008 1:01 PM
- (2) FHCF 2007/2008 Coverage Selections and Premium Calculations as of 3/31/08
- (3) (1) x (1 - (2))
- (4) Best Aggregates and Averages and actuarial judgment
- (5) Office of Insurance Regulation HB/SB 1A Cat Fund Presumed Factor Statewide All Lines Calculation TICL Layers Presumed Factor
- (6) (4) - (5)
- (7) (3) / (1 - ((6))). Assumes increase in FHCF premiums will be treated as fixed expense by primary insurers.
- (8) Based on actuarial judgment and:
9/30/2007 QUASR Report Direct Written Premium: Private Market: \$7,796,833,134 and Citizens: \$3,500,360,186.
6/30/2007 QUASR Report Direct Written Premium: Private Market: \$8,051,017,553 and Citizens: \$3,402,263,087.
- (9) (7) / (8)

State of Florida
Office of the Consumer Advocate
Private Primary Market Rates
Homeowners Insurance
Estimated Impact of 15% Average Reduction in Reinsurance Rates

	No Reduction in Private Reinsurance Rates	15% Reduction in Private Reinsurance Rates
(1a) Gross Cost of Private Reinsurance	1,896,463,103	1,611,993,638
(1b) Net Cost of Private Reinsurance	1,302,841,065	1,018,371,599
(1c) Loss & LAE Privately Reinsured	593,622,038	593,622,038
(2) Expected Hurricane Losses & Loss Adjustment Expense	1,659,574,117	1,659,574,117
(3) Expected Non-Hurricane Losses & Loss Adjustment Expense	2,078,316,442	2,078,316,442
(4) Fixed Underwriting Expense	449,820,000	449,820,000
(5) Total Fixed Expenses	5,490,551,624	5,206,082,158
(6) Estimated Expense and Profit Percentage of Premiums	29.6%	29.6%
(7) Estimated Fixed Expense Percentage of Premiums	6.3%	6.3%
(8) Estimated Variable Expense and Profit Percentage of Premiums	23.3%	23.3%
(9) Estimated 2007 Direct Earned Premium	7,158,476,693	6,787,590,819
(10) Estimated % Decrease		-5.2%

Notes:

- (1) & (2) Exhibit 4, Row (13)
(3) based on actuarial judgment
(4) (7) x 7,140,000,000
(5) (1b) + (2) + (3) + (4)
(6) & (7) Calculation of TICL layer presumed factor for HB/SB 1A prepared by the Office of Insurance Regulation
(8) (6) - (7)
(9) (5) / (1 - (8)). Actual Direct Earned Premiums are \$7,148,396,000 per NAIC I-Site Database.
(10) (9) @ 15% Reduction / (9) @ No Reduction - 1

Exhibit 5

State of Florida
 Office of the Consumer Advocate
 Modeled Average Annual Hurricane Losses
 (\$000s)

	(1)	(2)	(3)
	FHCF	Citizens	Citizens Share of Average Annual Hurricane Losses
CLA		163,640	
PLA		608,865	
HRA		1,105,230	
PCJUA		643	
Commercial Inland		1,221	
	3,465,005	1,879,599	54.2%

Notes:

- (1) The FHCF 2007 Ratemaking Formula Report, Page 49
- (2) Citizens modeled loss report, RMS RiskLink Version 7.0 as of 9/30/07
- (3) (2) / (1)

