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Solvency and Capacity Overview

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OIR's Mission

To ensure that insurance companies licensed to do business in Florida are financially viable, operating within the laws and regulations governing the insurance industry; and offering insurance policy products at fair and adequate rates which do not unfairly discriminate against the buying public



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Business Development and Market Research Unit

- **Business Development** - oversees the expansion and retention of companies in the Florida marketplace.
- **Market Research** - provides economic and market analysis of issues within the Florida market as well as providing analysis and discussion on the national and international level regarding insurance issues important to Florida.
- **Company Admissions** – Oversight of company licensure and acquisition filings.





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Property Market Challenges

- Recent events changed paradigm – frequency and severity
- Catastrophic events tended to occur relatively infrequently
- 4 hurricanes in 2004 – total FL insured losses of \$21.5B
- 4 hurricanes in 2005 – total FL estimated losses of \$13-\$15B
- Over 20k new applications to Citizens per month





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Property Market Challenges

- Some reinsurers being downgraded by A.M. Best
- Some carriers reducing exposure or completely withdrawing from Florida Market
- Rates do not contemplate multiple hurricanes in one season
- Modeling helps to project ultimate risk but has degree of uncertainty





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Mitigating Factors

- Some carriers leaving market find another insurer to offer coverage
- New carriers entering Florida market
- While cost of reinsurance is in question, we believe coverage will be available
- New reinsurers are being formed
- Rates do not appear to have been inadequate for typical year or even one hurricane annually
- Property insurers have filed and been approved for rate increases averaging 10% for HO and 15.9% Mobilehome in 2005, as costs to insurers increase
- FMAP is keeping policies out of Citizens





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Capacity

- Florida's population is expected to grow 46% by 2030.
- This creates opportunities for new carriers in the marketplace.
- Total new capital to Florida from new Florida domestic carriers of \$83M
- Total new capital from prospective Florida domestic insurers of \$ 109M
- New prospective investors continue to meet with OIR
- OIR is seeing hedge funds interested in investing in Florida property market.





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Capacity

Since August 2004:

11
New Domestic
Property Insurers

6
New Domestic
Obtained HO
Permits

3
New Domestic
Pending HO
Permits





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Capacity

- 8 foreign carriers expanded to Florida to write property coverage.
- 2 existing Florida carriers added homeowners line of business since the 2004 hurricane season.
- 2 existing Florida carriers currently requesting to add the homeowners line of business.





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2005 Takeout Companies

- 10 Florida domestic insurers removed 203,985 PLA and 38,726 HRA policies from Citizens by end of third quarter 2005
- These insurers meet:
 - Minimum surplus under statutes
 - Risk based capital requirements
 - Writing ratios





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Reinsurance

- Capacity/Availability
- Cost





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Reinsurance Market Update

- 2004 hurricane season
 - Moderate impact on reinsurer losses, thus only moderate (10-15%) average increases in FL reinsurance rates
 - Some evidence exists that contract terms were tightened in many cases





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Reinsurance Market Update

- 2005 hurricane season
 - Katrina had a major impact on reinsurers (estimated \$26-\$30B in national losses and \$1.5B FL losses)
 - Early estimates are for significant (30-50% increases) in the other Gulf states with moderate (15-25%) increases for Florida





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Reinsurance Market Update

- 2006 Contract Renewals



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Reinsurance Capacity

Getting into reinsurance business:

- Hedge funds (Nelphia Capital Ltd., CIG Re, CooperNeff Advisors, Inc.
- Former Marsh McClennon exec. Jeffrey Greenberg forming Validus Reinsurance Ltd.
- Chubb Corp. and Stone Point Capital LLC forming Harbor Point Ltd. Reinsurer
- Lloyd's to establish Amlin Bermuda with \$1 B in capital





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Solvency

- 12 insolvencies in Florida after Hurricane Andrew.
- 1 insolvency in Florida after series of 2004 hurricanes (OIR worked with another carrier to place coverage).
- '05 hurricane season:
 - Dennis, \$737M estimated gross losses
 - Rita, \$23M ISO estimate for gross losses
 - Katrina, \$1.5B
 - Wilma, \$8-12B preliminary estimate according to the private models and \$6-\$8B according to the public model

Lessons learned:

- Florida Hurricane Catastrophe fund worked.
- OIR requirement to reinsure up to the 100-year storm worked.
- OIR solvency regulation worked.





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Solvency

- Detailed review prior to licensing
- Quarterly monitoring of financial results
- Annual CPA audit
- Annual CPA letter on internal control
- OIR Financial Examination process
- Surplus adequacy measures
 - Statutory minimum
 - Risk-Based Capital
 - Writing ratio requirements





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Catastrophic Risk

- Not just hurricanes
- Global Market





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Catastrophic Risk



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National Catastrophe Fund

- Private sector and regional funds
- Tax deferred reserves
- National Mega-Catastrophe Fund





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National Catastrophe Fund

- Personal responsibility
- Improve building codes
- Loss mitigation
- Tax deferred savings accounts for insureds





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Questions



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