

Florida Hurricane Catastrophe Fund

**Task Force on Long Term Solutions for
Florida's Hurricane Insurance Market**

September 28, 2005

Overview

- I. **Explanation of the FHCF**
- II. **Historical Perspective**
- III. **2004/2005 Hurricane Season Losses**
- IV. **Current FHCF Financial Status**

I. Explanation of the FHCF

What is the FHCF?

- **State Tax-Exempt Trust Fund created by the Florida Legislature for the purpose of providing a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic hurricane losses in order to provide additional insurance capacity for the state.**
- **A state run reinsurance program.**
- **Mandatory for insurers writing residential property insurance in Florida.**

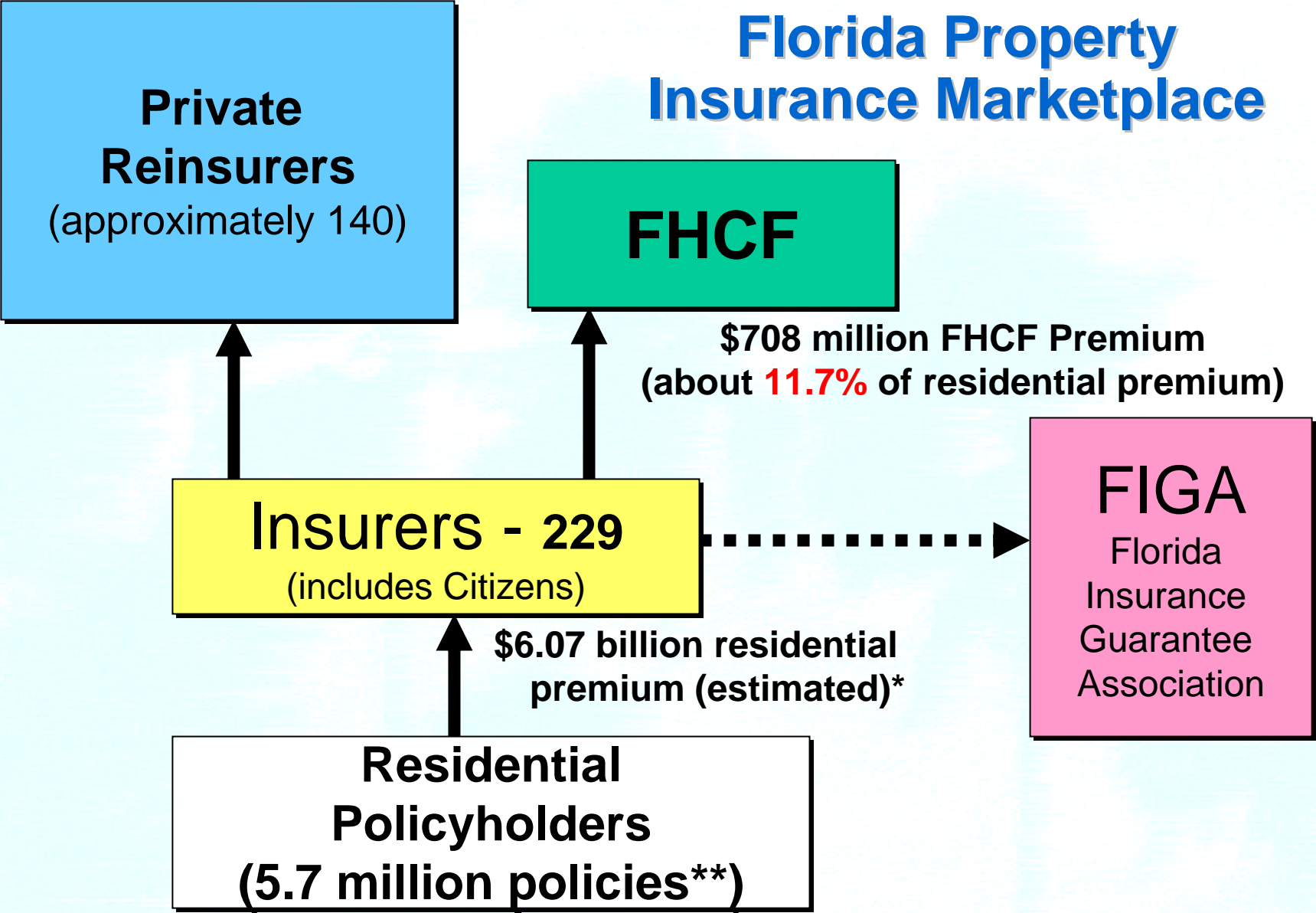
FHCF Background

- **Created in the November 1993 Special Legislative Session**
- **Administered by the State Board of Administration of Florida (SBA)**
- **Office of Insurance Regulation Enforces**

Oversight of the FHCF

- **State Board of Administration of Florida**
 - Governor
 - Attorney General
 - Chief Financial Officer
- **Executive Director (Coleman Stipanovich)**
- **Senior FHCF Officer (Jack Nicholson)**
- **Nine (9) member Advisory Council – to provide the SBA with advice and information**

Florida Property Insurance Marketplace



*Based on OIR's QUASAR data as of March 31, 2005. Note that as of 3/31/05, the total residential premium in the surplus lines market was \$248,224,555. Surplus lines residential premium is not included in the total.

** Based on OIR's QUASAR data as of March 31, 2005. As of 3/31/05, the number of surplus lines policyholders was 417,781 and is not included in the total.

How the FHCF Operates

- **Insurers required to report exposures**
- **FHCF Premiums based on an insurer's exposure**
- **FHCF coverage is determined by FHCF premiums**
 - **Insurer retention is a multiple of FHCF premiums**
 - **Limit of coverage (payout) is a multiple of FHCF premiums**
- **Insurers select coverage above its retention: 45%, 75%, or 90%**
- **Coverage for residential structures and their contents as well as additional living expenses (ALE)**

How the FHCF Operates (con't)

- **Loss Adjustment Expense (LAE) is a flat 5%.**
- **Losses are reported by year-end 12/31.**
- **Cash balance is used to pay claims.**
- **If the cash balance is not sufficient, revenue bonds are required to be issued.**
- **To fund revenue bonds, emergency assessments are levied on all P&C lines including surplus lines, but excluding WC and Med Mal (excluded only until 2007).**
- **The maximum emergency assessments are 6% per year and 10% aggregate for all years.**

How the FHCF Operates (con't)

- **SBA is only liable to the extent of its assets and borrowing capacity -- the state is not liable for any shortfall.**
- **The maximum limit of liability of the FHCF is currently \$15 billion for an initial season (adjusts with exposure growth).**
- **Subsequent Season Capacity is estimated at \$15 billion.**
- **Mitigation – the Legislature appropriates a minimum of \$10 million annually or up to 35% of investment income unless the actuarial soundness of the fund is jeopardized.**

Important Dates

- I. **June 1** – Contracts signed and coverage options selected
- II. **June 30** – “As of” reporting date, determines FHCF premium, retention, limit of coverage (payout)
- III. **August 1** – **1st Provisional Premium Due**
- IV. **September 1** – **Exposure Data Due**
- V. **October 1** – **2nd Provisional Premium Due**
- VI. **December 1** – **3rd Installment Premium Due (True Up Premium)**
- VII. **December 31** – **Proof of Loss Forms Due**
 - a) **September 30** -- **Quarter loss reporting date**
 - b) **March 31** -- **Quarter loss reporting date**
 - c) **June 30** -- **Quarter loss reporting date**

II. Historical Perspective

History of Significant Legislative Changes

- **1995** - tax exempt status for the fund and greater equity among insurers
- **1996** - public benefits corporation created and provisions necessary to be able to issue tax exempt debt
- **1999** - creation of subsequent season capacity
- **2002** – Addition of “additional living expense (ALE),” collateral protection insurance, and rapid cash buildup factor
- **2004** – Increase limit to \$15 billion limit to grow with exposure growth in the state, reset retention to \$4.5 billion, increase assessment authority, include surplus lines in assessment base, and other administrative changes.
- **2005** – Reset the aggregate insurance industry retention to \$4.5 billion for 2005. Full retention is applied to the two largest events for each insurer and then drops down to 1/3 for all other events during a contract year.

2004 Legislation

Expanding the FHCF

(effective June 1, 2004)

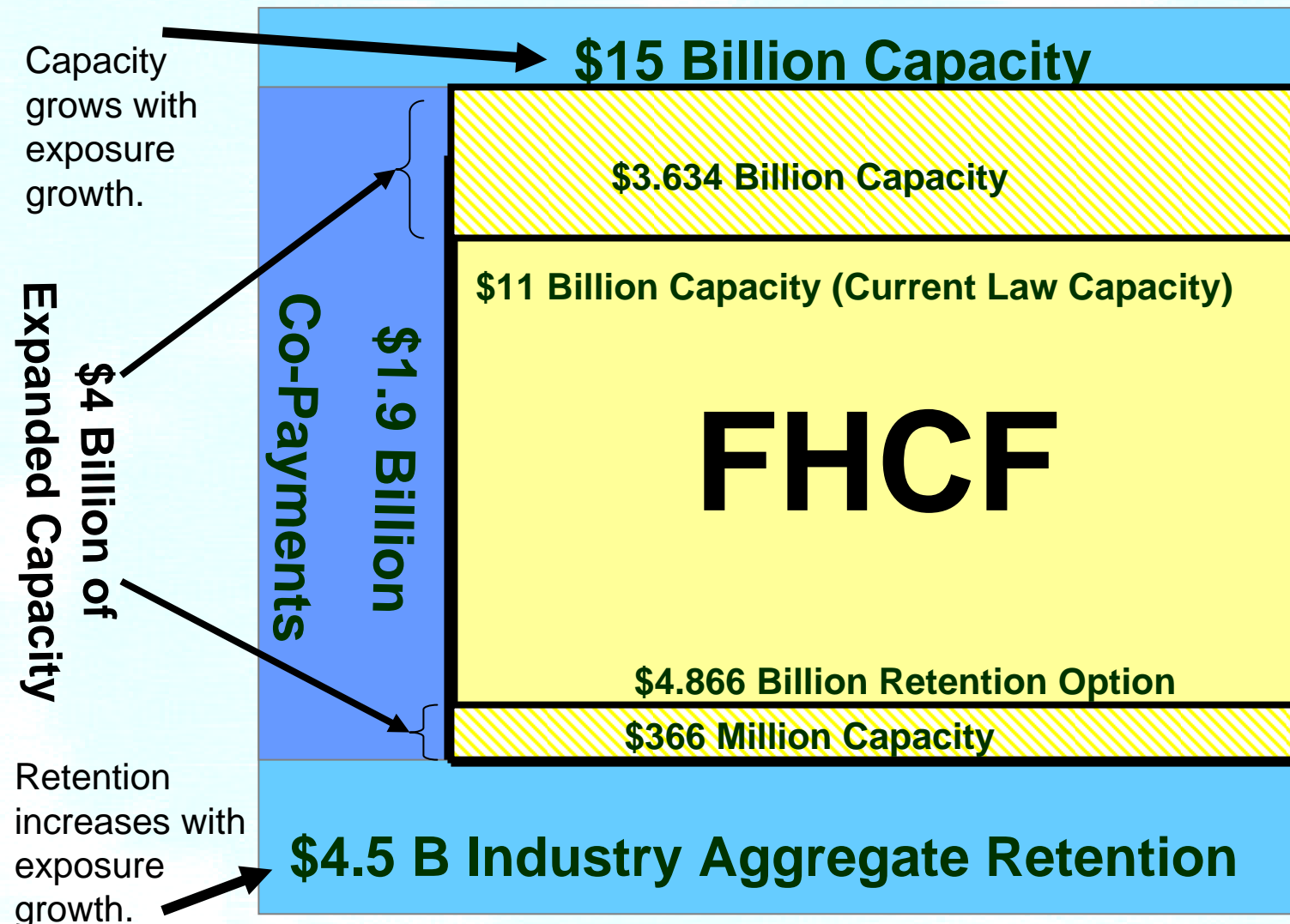
- **Increased the capacity to \$15 billion**
- **Adjusted both initial and subsequent season capacity to grow with exposure growth (but not to exceed the growth in the cash balance of the fund)**
- **Increased emergency assessment authority from 4%/6% to 6%/10%**
- **Revised the way emergency assessments are recouped from policyholders**

2004 Legislation (con't)

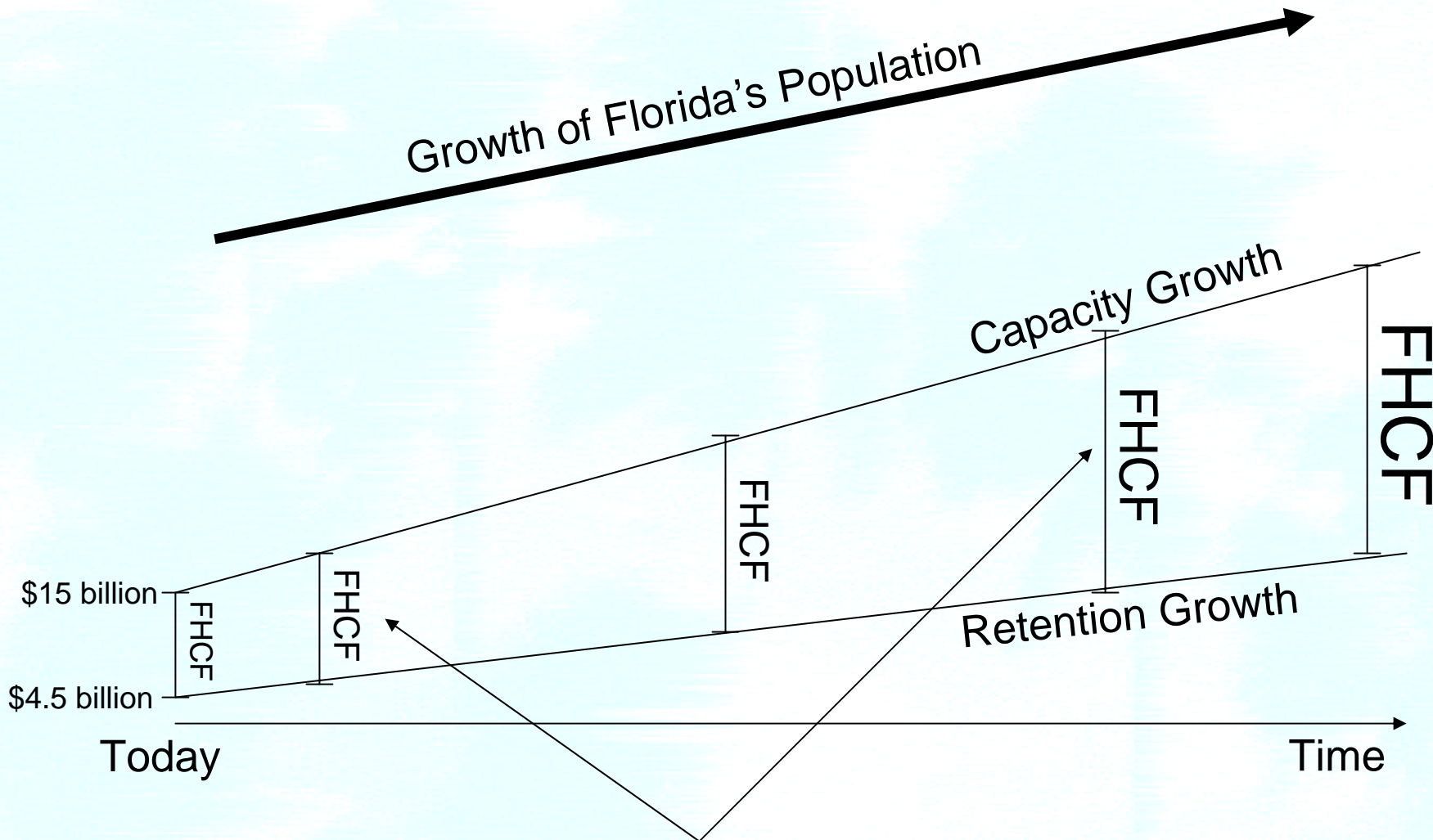
- **Provided for a Transitional Option for coverage for the 2004-2005 Contract Year**
- **Allowed for a 3 year exclusion from emergency assessments for Medical Malpractice Insurers**
- **Included Surplus Lines in the assessment base**
- **Reset the retention to \$4.5 billion for 2004**

FHCF Increased Capacity

2004 Legislation



Not Drawn to scale.



FHCF maintains its relative share of the reinsurance market over time.

2004/2005 Legislative Changes Impacting the FHCF

- **Special session (December 2004)**
 - **Multiple Deductible Program**
 - Administered by DFS
 - Up to \$150 million allocated from the FHCF
 - FHCF to recoup the cost in its premiums over 5 years starting in 2006
 - Cut off provision as of March 1, 2005, and anti-fraud provisions
 - Total moneys forwarded to DFS from the FHCF \$51,275,333
- **Regular session 2005**
 - Reset the FHCF aggregate retention to \$4.5 billion
 - Allows for a “drop down” in the retention after an insurer absorbs two full retentions on the insurer’s two largest events

III. 2004/2005 Hurricane Season Losses

2004 Losses

(Summary – Estimated Florida Residential Losses Only*)

- Hurricane Charley -- \$6 billion** (\$5.5 billion/\$2.2 billion FHCF***)
- Hurricane Frances -- \$2.5 billion** (\$5.1 billion/\$1.4 billion FHCF***)
- Hurricane Ivan -- \$1.8 billion** (\$2.4 billion/\$335 million FHCF***)
- Hurricane Jeanne -- \$4.23 billion** (\$2.67 billion/\$306 million FHCF***)
- TOTAL LOSSES -- \$14.5 billion estimated from models (Reported **\$15.7 billion*****)
- TOTAL FHCF LOSSES -- **\$3.611 billion****** (latest estimate from insurers)****
- Office of Insurance Regulation -- \$20.934 billion***** (all insured losses all events)

*Unless otherwise noted.

**Based on an average of model results using four models (AIR, EQECAT, RMS, & ARA) for Charley and Frances and three models (AIR, EQECAT, & RMS) for Ivan and Jeanne.

***Based on preliminary loss reports received by the FHCF. All loss estimates are subject to change as more information becomes available (industry residential losses/FHCF anticipated losses).

****The FHCF losses do not total to the sum of the losses for each event due to insurers capping out their coverage on earlier events. The total would otherwise add to **\$4.241 billion**.

*****Office of Insurance Regulation's Disaster Reporting Summaries, All Disasters as of June 17, 2005.

Illustration of the Impact of Adverse Development on FHCF Losses

Increase in Incurred Residential Ultimate Net Loss	Percentage Increase	FHCF Capped Recovery on Incurred Basis
\$11.418 B <small>(10/15/04)</small>	0%	\$2.043 B
\$11.989 B	5%	\$2.284 B
\$12.569 B	10%	\$2.534 B
\$13.702 B	20%	\$3.038 B
\$14.843 B	30%	\$3.611 B, \$3.616 B
\$15.985 B	40%	\$4.248 B
\$17.127 B	50%	\$4.902 B
\$18.268 B	60%	\$5.556 B
\$19.410 B*	70%	\$6.169 B

*Residential losses above these levels may require the issuance of revenue bonds. The year-end cash balance for 2004 was estimated at \$6.12 billion before losses. 21

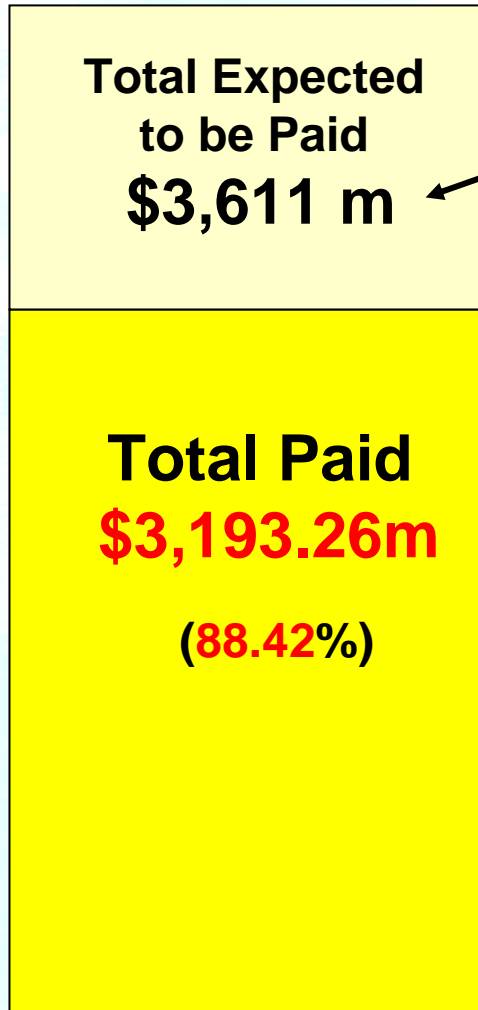
Update: 2004 FHCF Losses

As of 9/21/05

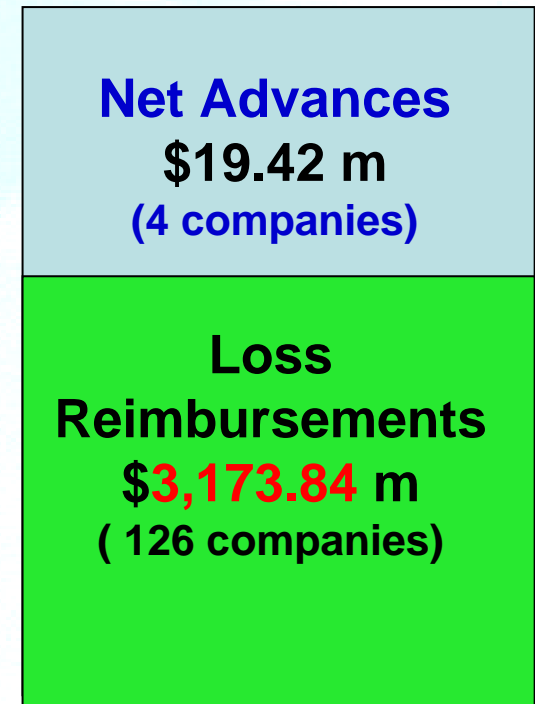
- Losses reimbursed/advanced to insurers for **\$3.193 billion**
- Current expected FHCF reimbursements **\$3.611 billion**
- Losses including reserves **\$3.75 billion**
- **88.42%** Paid, **\$418 million** outstanding to be paid
- Modeled industry residential losses **\$14.5 billion**
- Reported industry residential losses **\$15.7 billion**
- **138** insurers expected to trigger coverage, **126** insurers have been paid to date – 12 more are expected to trigger.
- **60** insurers expected to exhaust their limit of coverage, **57** have exhausted their limit to date (3 such insurers are still reporting losses)

Actual FHCF Advances & Loss Reimbursements

ALL HURRICANES
As of 9/21/05



Total Losses Including Reserves
\$3,750 m

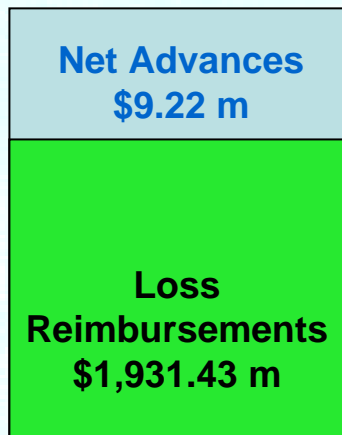
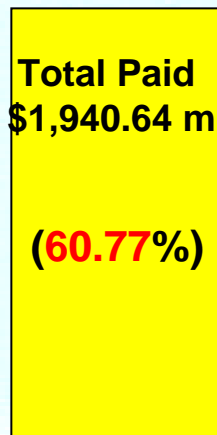


	<u>Net Advances</u>	<u>Reimbursements</u>
Charley	\$ 9.22 m	\$1,931.43 m
Frances	\$ 5.94 m	\$ 991.92 m
Ivan	\$ 1.63 m	\$198.58 m
Jeanne	\$ 2.63 m	\$ 51.91 m
	\$ 19.42 m	\$3,173.84 m

Actual FHCF Advances & Loss Reimbursements

Hurricane Charley -- 8/13/04

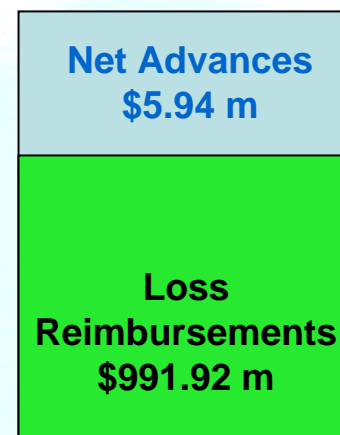
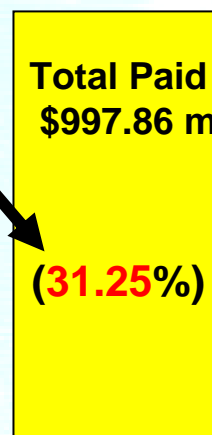
As of 9/21/05



Hurricane Frances -- 9/4/04

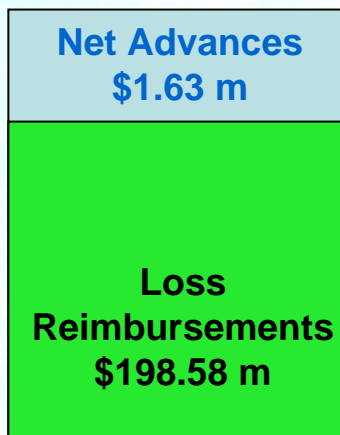
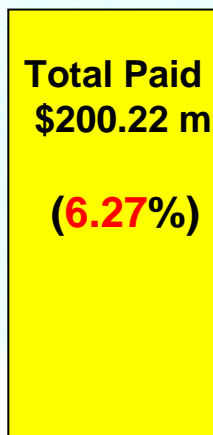
As of 9/21/05

% of
the
dollars
paid



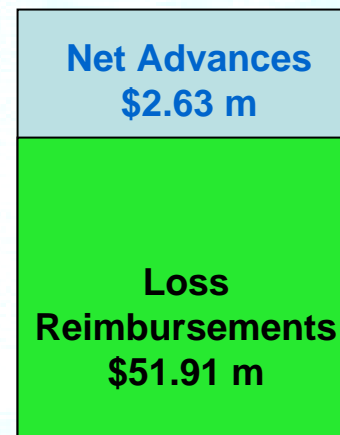
Hurricane Ivan -- 9/16/04

As of 9/21/05



Hurricane Jeanne -- 9/26/04

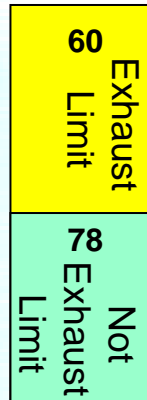
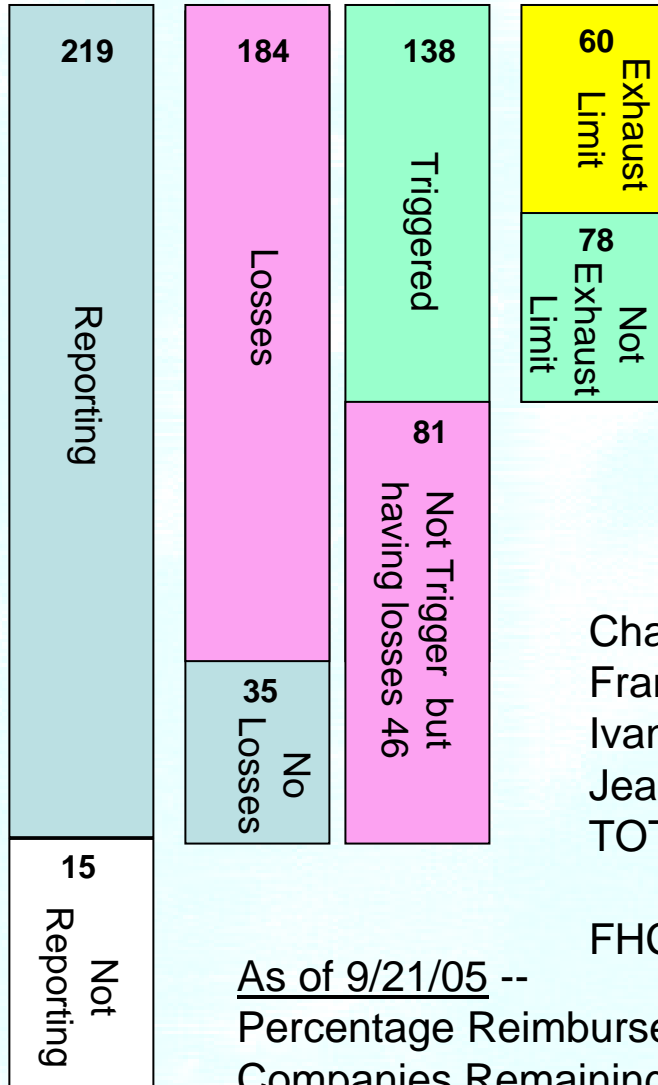
As of 9/21/05



All Hurricanes – Expected Losses

As of 7/14/05

234 Participating Insurers



Estimated Residential Losses \$ 14.5 billion*

Potential FHCF (7/14/05)

Losses \$ 3.611 billion

Paid \$3.193 billion (9/21/05)

Ultimate Net Loss Reported \$15.7 B

Total Paid Loss Reported \$13.327 B

Percentage – Paid by Company/Ultimate

Charley	\$5.0B/\$5.5B	90.9%
Frances	\$4.4B/\$5.1B	86.3%
Ivan	\$1.8B/\$2.4B	75.0%
Jeanne	<u>\$2.1B/\$2.7B</u>	<u>77.8%</u>
TOTAL	\$13.3/\$15.7B	84.7% (as of 7/14/05)

FHCF 88.42% (as of 9/21/05)

As of 9/21/05 --

Percentage Reimbursed Expecting to Trigger: 126/138 = 91.3%

Companies Remaining to be Reimbursed = 12 companies

Estimated Remaining Losses to be paid: \$418 million

2005 Hurricane Losses

(as of 9/7/05)

■ Hurricane Dennis (Early loss estimates (subject to change))

AIR \$833M

EQE \$972M

RMS \$852M

KAC \$811M

AVERAGE* **\$867M****

Estimated Reimbursements from the FHCF: **\$32M (range \$0 - \$185M)**

■ Hurricane Katrina (Early loss estimates (subject to change))

AIR \$196M

EQE \$421M

RMS \$464M

KAC \$427M

AVERAGE* **\$377M****

Estimated Reimbursements from the FHCF: Unknown

•AIR (AIR Worldwide Corporation), EQE (EQECAT, Inc.), RMS (Risk Management Solutions, Inc.), KAC (Kinetic Analysis Corporation).

**Based on 2004 insurer exposure data. Reported losses will not be known until year end.

IV. Current FHCF Financial Status

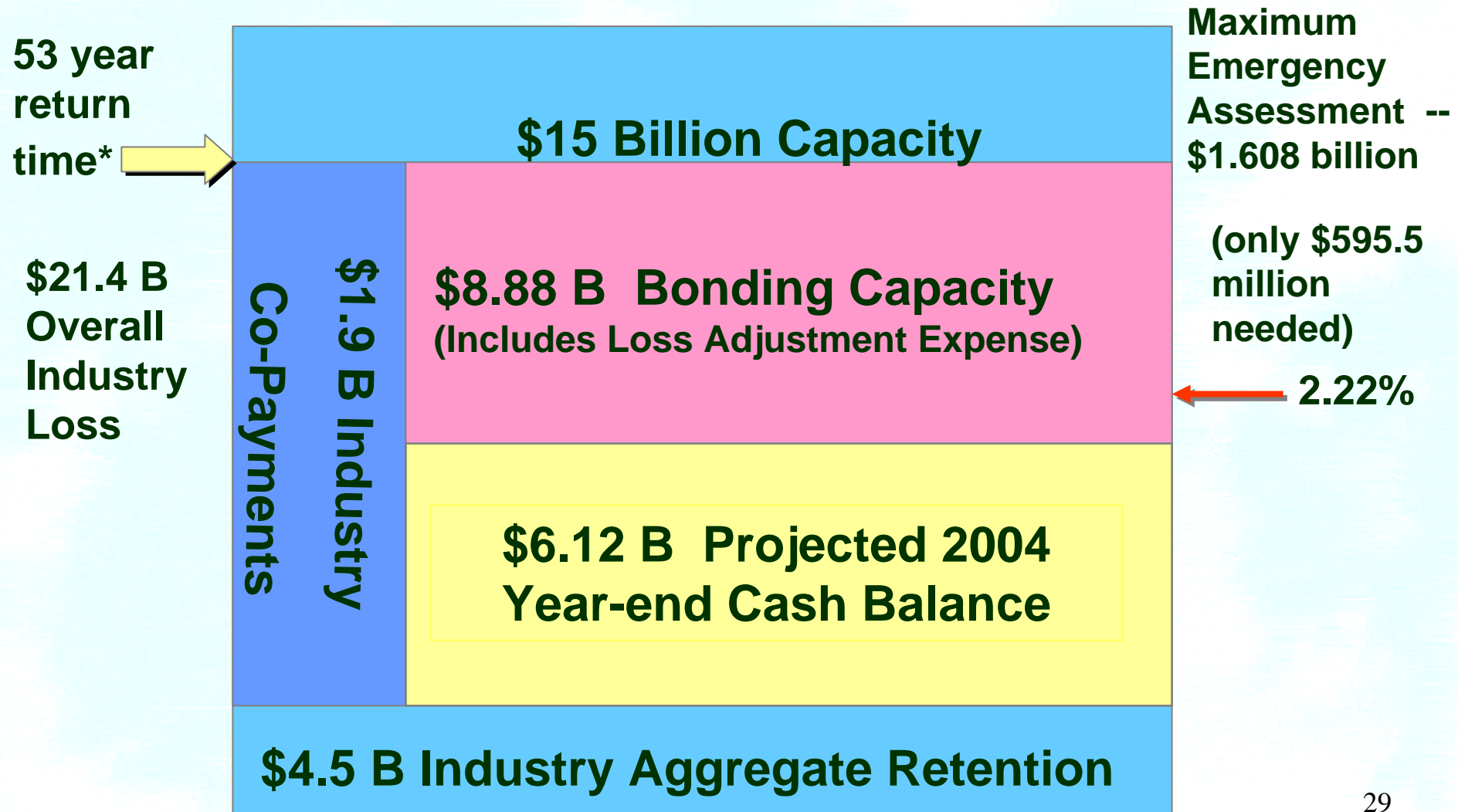
Update: FHCF Financial Status

- FHCF Reimbursement Premiums -- **\$708 million**
- Mitigation Funding -- **\$10 million**
- FHCF Capacity
 - Initial Season **\$15 billion**
 - Subsequent Season **\$15 billion**
- Projected Year-End Cash Balance 2005 -- **\$3 billion**
- Estimated Bonding Capacity 2005 -- **\$12 billion**
- Emergency Assessment Base -- \$31.377 billion
 - Maximum per year 6% assessment equals \$1.882 billion
 - Maximum all years aggregate 10% assessment equals \$3.138 billion
- Estimate of Initial season emergency assessment needed to fund \$12 billion of bonding: **2.52% or \$790.5 million***
- Estimate of subsequent season emergency assessment needed to fund \$14.28 billion of bonding: **3.72% or \$1.167 billion***

*Based on interest rates as of May 2005.

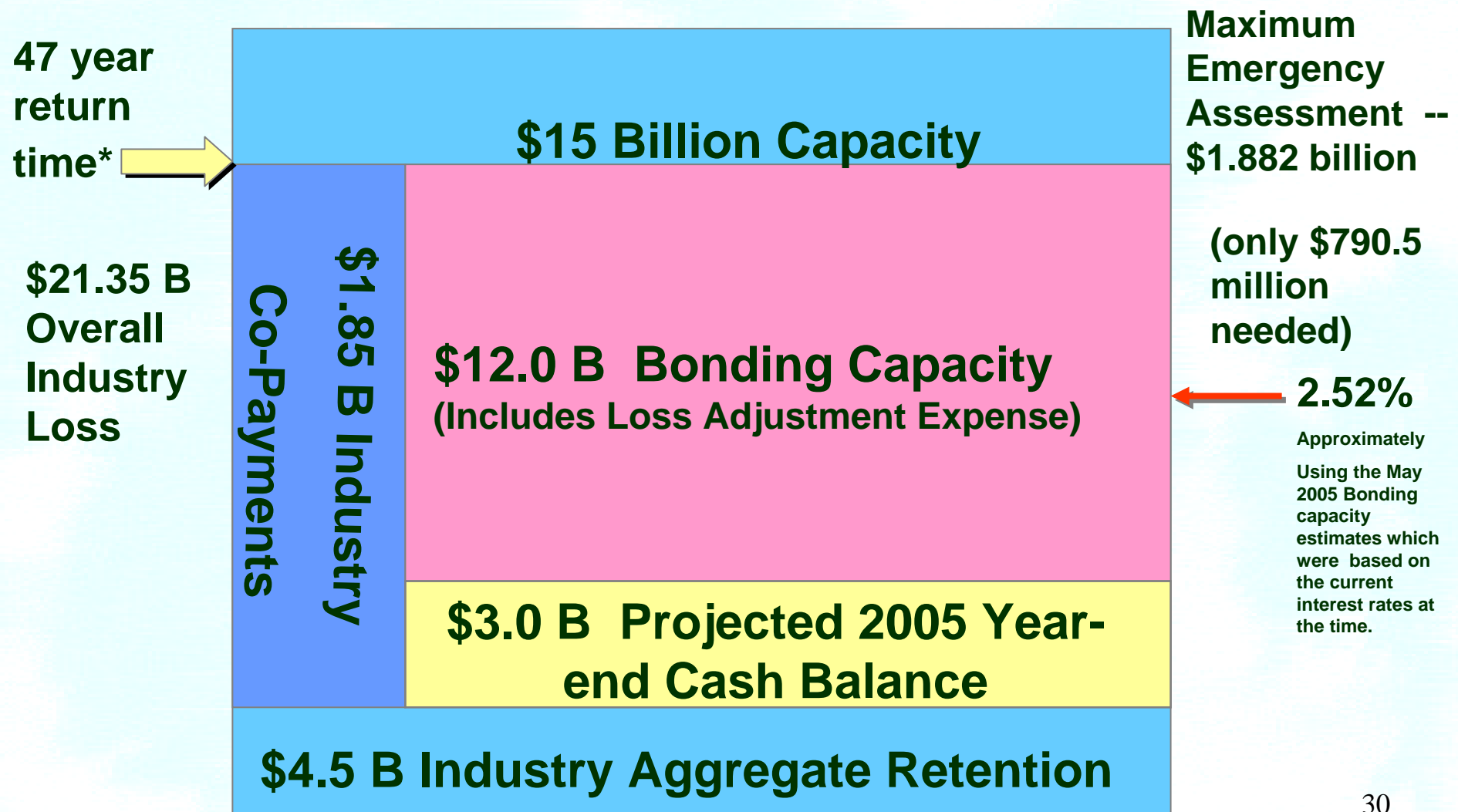
Initial Season Capacity For the 2004 Hurricane Season

(October 2004 Estimate)



Initial Season Capacity For the 2005 Hurricane Season

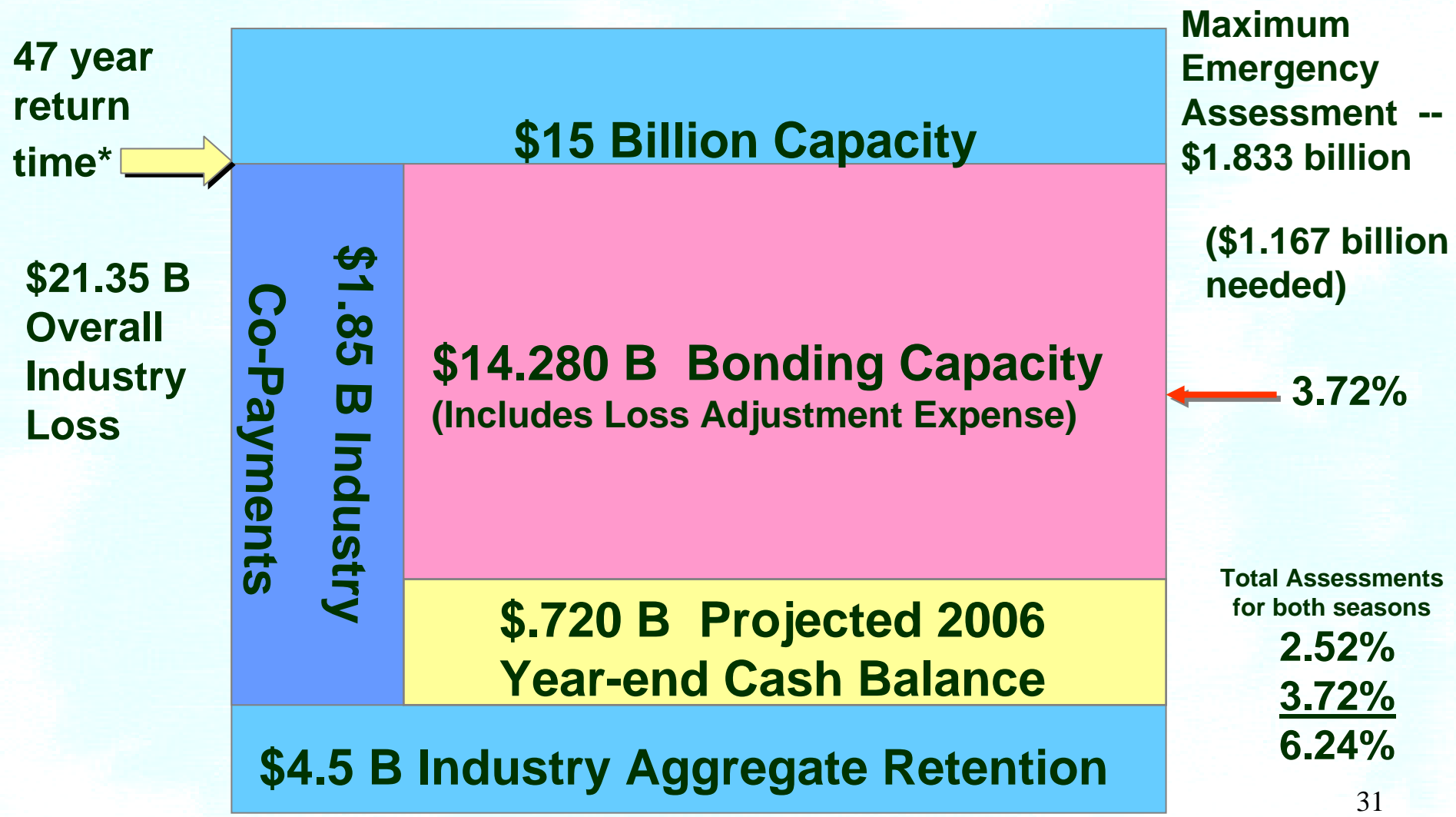
(Current 2005 Estimate)



*Return time not adjusted for premium/exposure growth.

Subsequent Season Capacity For the 2006 Hurricane Season

(Current 2005 Estimate)



*Return time not adjusted for premium/exposure growth.

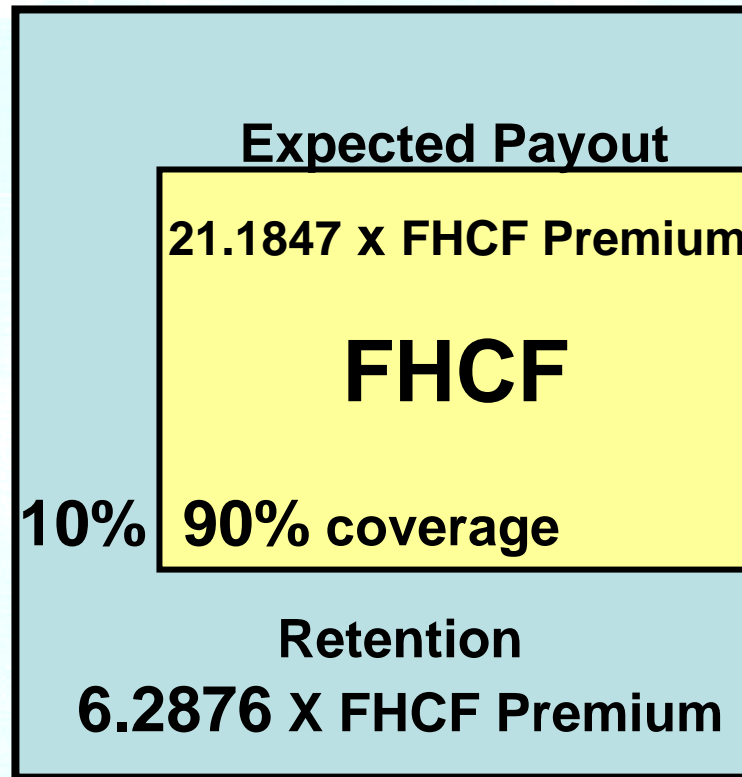
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2005 FHCF Coverage*

Based on \$15 b xs \$4.5 b

Payout Multiple – 21.1847 (projected)

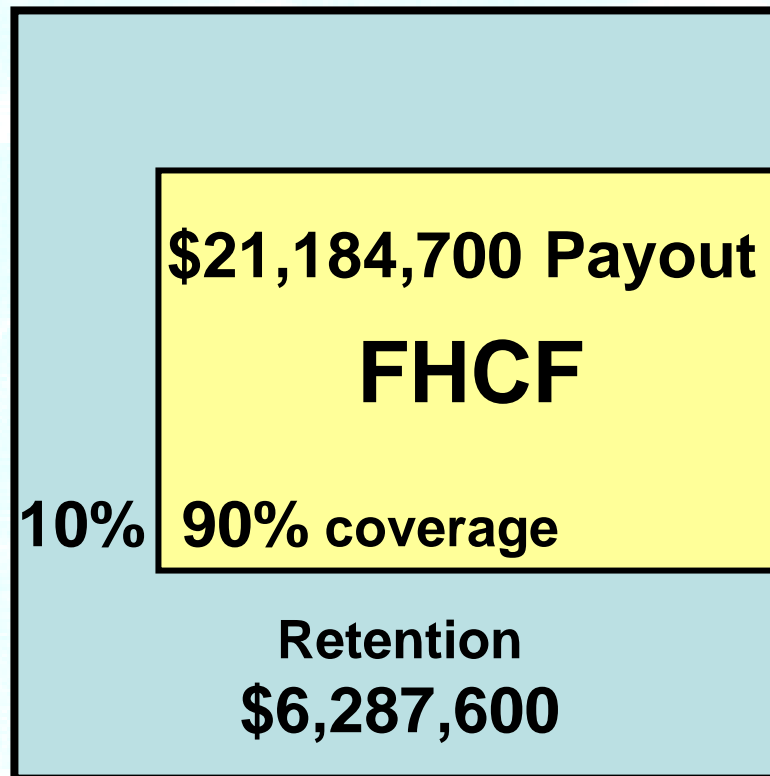
Retention Multiples – 6.2876 (90%), 7.5452 (75%), 12.5753 (45%)



Insurers have three coverage options
45%, 75%, or 90%

2005 FHCF Coverage

Example: \$1 million FHCF Premium

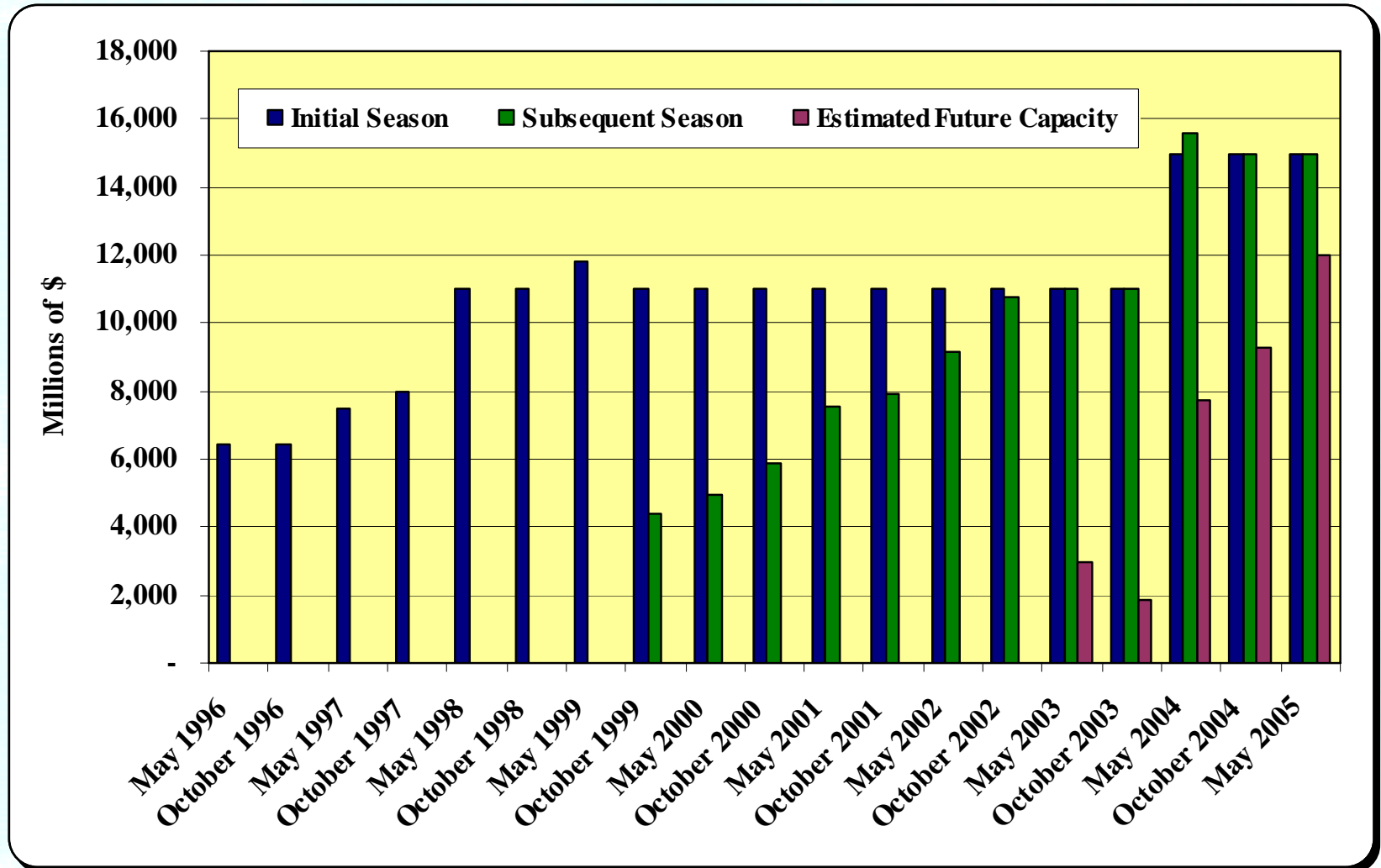


*Not drawn to scale

FHCF Bonding Program

- **Creation of legal structure: public benefits corporation (FHCF Finance Corporation)**
- **Supreme Court validation of bonds (up to \$10 Billion)**
- **Development of financing structure and legal documents**
- **Obtained credit ratings: (Moody's Aa3, S&P AA-, and Fitch AA)**
- **IRS private letter ruling to issue tax-exempt debt**
- **Team of underwriters, financial advisor, & bond counsel in place**
- **\$42.66 billion of multi-year capacity (\$15 billion + \$15 billion + \$12.66 billion) based on current assumptions and long term interest rates**

Historical Claims Paying Capacity of the Fund



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