



January 17, 2006

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

Re: CS/SB 1486 – Implementation Considerations

Mr. Chairman and Members of the Task Force:

Thank you for allowing us to submit remarks concerning the implementation of the provisions of CS/SB 1486 (hereinafter “1486”) passed by the 2005 Legislature. The Florida Insurance Council is the state’s largest not-for-profit, multi-line insurance trade association whose members write approximately \$20 billion of premium in Florida annually.

First, a couple of general remarks seem appropriate. The industry believes that less regulation, not more, is the ultimate long-term solution to the property insurance market in Florida. In an economy driven by free market forces, we believe capital will react more favorably to that approach than to one which further restricts the use of that capital.

This legislation imposes a host of new requirements on insurers. This Task Force should focus attention of the cost of those new requirements which we will discuss in more detail below. This cost can only ultimately be recovered from one source, the good people of Florida. To illustrate this point one of our companies pointed out that prior to 1486, their average homeowners renewal declaration was three pages. Post-1486 - with deductible notices, outlines of coverage, changes in policy wording to accommodate changes in ordinance and law coverage, cancellation provisions, and so on - their declaration is now up to twelve pages and growing as we await the rollout of the checklist and the implementation of other provisions of the law still in development.

Further consideration should be given to the cost effectiveness of these provisions. The cost of new equipment to handle these mailings and the postage alone are substantial. And the question arises as to whether we have done the consumer any favor with all this paperwork, if it is so burdensome he or she will simply not read it.

Now, with your indulgence, we would like to review some specific provisions of 1486. References to page numbers and lines are to the enrolled version of CS/SB 1486.

Page 13, Line 24, Standard Rating Territory

The Office of Insurance Regulation (hereinafter “OIR”) is to develop a proposed standard rating territory plan and submit it to the Legislature by January 15, 2006. The industry opposes this plan. Individual companies have invested a great deal of time and money in determining appropriate rating territories for their company’s business plan in Florida. This will be expensive and the industry, again, believes less government intervention, not more, is the long-term solution.

Page 15, Line 16, OIR Access to Proprietary Hurricane Models

Under this provision OIR and the consumer advocate are to have access to “all assumptions and factors” used in proprietary hurricane models. These models, while not perfect (but neither is the weather service), are the current state-of-the-art in predicting hurricane effects. Under what appears to be OIR’s current interpretation of this provision, companies are effectively banned from using these models. This is a disaster itself in the making.

We are aware of at least two companies’ filings that have been disapproved by OIR in part, at least, because the company could not provide all the information OIR requested relative to the hurricane model it was using. Companies are unable to comply with this provision because companies that use a third-party modeler are forced to enter into confidentiality agreements with that third-party as a condition of their contract. The information is proprietary in nature and its disclosure destroys the value of third-party model. Accordingly, disclosure of the information subjects the company to contract litigation from the third-party modeler.

Page 2 of 2

To deal with this problem in the past, the Legislature set up the Commission on Hurricane Loss Projection Methodology which studies in detail these “assumptions and factors” in a secure environment. Only after the Commission approves the model for use may an insurer use it in Florida. Our reinsurers use these models and it is essential that the industry be permitted to use these models after they are approved for use by the Commission.

Page 15, Line 27, Public Rate Hearings

This provision requires a rate filing using a model to be subject to a public hearing if it exceeds 15%. It has been the recent practice of OIR to hold a public hearing on almost all rate filings and in some cases more than one such hearing. This is expensive in both travel costs and human resources. At some of these hearings no member of the public has even shown up. This calls into question the need for these hearings.

Page 36, Line 26, Standard Personal Lines Policy

This provision directs the Department of Financial Services (hereinafter “DFS”) to develop a personal lines residential policy form. The industry is opposed to a mandated standard personal lines residential policy. DFS has a committee working on this as we speak. When the undersigned testified before that committee, it was suggested by the chairman that such a policy could educate the public and be used as a comparison tool. But what is better as a tool to educate the public, a long cumbersome document, which they will likely not read, or a checklist? We already have a mandated checklist, a mandated outline of coverage and the declaration page.

Page 38, Line 22, Form Disapproval

This provision gives OIR additional authority for disapproval for residential property forms if they are “unfair or inequitable or encourage misrepresentation”. The industry’s concern is that this is just another layer of regulation that discourages a healthy and competitive market. We support less regulation, not more.

Page 42, Line 19, Outline of Coverage and Checklist

As noted above, this provision mandates the mailing of an outline of coverage and a checklist on both new and renewal business. Also as noted above, policy mailings have increased in size from a few pages pre-1486 to a substantial package of papers post-1486. Very substantial cost is involved in programming for these mandated changes, not to mention the millions of dollars invested in existing mail room equipment which will not handle these types of volume in many instances. And this does not even count the cost of mailing such large packages nor does it take into account whether the policyholder will even read such a mass mailing or simply be discouraged and just throw it in the drawer as many apparently do now with their existing policy.

Page 52, Line 11, Law and Ordinance

There is a glitch in the language. There needs to be a change in this language to clarify the Legislature’s intent that no rejection form is required so long as the offers of 25% and 50% coverage are tendered.

Page 54, Line 8, Replacement Cost Coverage

The industry would prefer that this section be repealed and that we return to prior law. At a minimum, a replacement cost holdback should be allowed on payment of personal property items if the contract so provides. There have already been a number of rate filings to reflect the increased cost of providing replacement cost coverage without holdback. It is estimated this coverage requires a premium increase to Floridians of 1% to 2%.

Again, we appreciate the opportunity to share our concerns with the Task Force and would be happy to respond to questions from the individual members as appropriate.

Respectfully submitted,

Guy Marvin, III, President
The Florida Insurance Council, Inc.