Economic Impact of a 1-in-100 Year Hurricane

Department of Financial Services

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<u>Purpose of Report</u>

During the 2008 Legislative Session, the Florida Legislature directed the Chief Financial Officer to provide a report on the economic impact on the State of Florida of a 1-in-100 year hurricane. Specifically, s. 215.55952, F.S., states:

> The report shall include an estimate of the short-term and long-term fiscal impacts of such a storm on Citizens Property Insurance Corporation, the Florida Hurricane Catastrophe Fund, the private insurance and reinsurance markets, the state economy, and the state debt. The report shall also include an analysis of the average premium increase to fund a 1-in-100-year hurricane event and list the average cost, in both a percentage and dollar amount, impact to consumers on a county-level basis.

<u>2009 Report on the Economic Impact of a 1-in-100 Year Hurricane</u>

The report detailed the economic effects of a 1-in-100 year hurricane both on the state and its residents. This was the first report submitted pursuant to this statute and was designed to serve as a benchmark for subsequent reports submitted annually pursuant to this statute.

This report was produced with information from the following sources: the Office of Insurance Regulation, Citizens Property Insurance Corporation, the Florida Hurricane Catastrophe Fund, the Florida Insurance Consumer Advocate, the Florida Commission on Hurricane Loss Projection Methodology, the State Board of Administration, the Legislative Office of Economic and Demographic Research, and DFS Divisions of Risk Management and Rehabilitation and Liquidation.

For purposes of the report, a 1-in-100 year storm would comparable to a Category Four Hurricane on the Saffir-Simpson Hurricane Scale making initial landfall in a heavily-populated area in the vicinity of Tampa Bay or Miami during the 2009 Hurricane Season. Such a storm would be expected to cause approximately $60.86 billion in residential insured windstorm losses and loss adjustment expenses (LAE) to insured property.

In addition to the $60.86 billion in residential insured losses, it was estimated that commercial buildings and contents would experience approximately $30 billion in insured losses. Based on this information, the Legislature's Office of Economic and Demographic Research predicted Florida would experience between $183.22 billion and $198.99 billion in total damages.

A 1-in-100 year hurricane in Florida in 2009 would have far surpassed the costliest single hurricane in the United States (Hurricane Katrina at $81 billion in 2005) and would have more than tripled the entire loss associated with the four 2004 storms in Florida ($45 billion). Businesses would have been closed, Floridians would have been displaced, and the rebuilding process would have taken years. Additionally, industries like tourism would have been significantly impacted, as thousands of leisure visitors would vacationed elsewhere following a 1-in-100 year hurricane.

2010 Report on the Economic Impact of a 1-in-100 Year Hurricane

For 2010, DFS commissioned Milliman, Inc., to produce the report, which was completed containing 2009-2010 information on Florida's exposure to a 1-in-100 year hurricane in certain areas of the state and estimated economic impacts to the State as well as to Florida policyholders. The Milliman report used information from the Legislative Office of Economic and Demographic Research (EDR), Florida Hurricane Catastrophe Fund, Citizens Property Insurance Corporation, the Office of Insurance Regulation, and others to complete the analysis. The report concluded that the State would face an estimated $160 billion in total losses from a 1-in-100 year storm, only $79.1 billion of which would have been insured losses. The FHCF and

Citizens would have incurred losses of $23 billion and $23.6 billion, respectively, leaving policyholders vulnerable to potential assessments to pay for $19.7 billion in post-event financing. Further, the report indicated that an event of this magnitude could drive reinsurance rates up nearly 40%, which would result in higher rates for private insurance on top of the higher assessments that would be required to finance the debt of FHCF and Citizens.

2011 Report on the Economic Impact of a 1-in-100 Year Hurricane

Economic Conditions Affect Florida's Hurricane Exposure

Florida was one of the hardest-hit states in the recent economic recession. It has been a slow recovery for the nation and for Florida, specifically. For the second year in a row, Florida has the second highest number of foreclosure filings in the country. Florida has the third highest foreclosure rate in the country and the number of foreclosures is contributing to our stagnant housing market, adding more inventory than the market can keep up with in existing home sales. Florida still has the third highest unemployment rate in the country at 11.5% and while we have slight improvements, there is no near-term recovery indicated. Finally, the State's primary driver of economic growth is population growth and forecasts indicate that our growth will remain relatively flat, averaging 0.6% between 2010-2012, compared to an average of 3% average annual growth from 1970-1995.

In addition to our slow economic recovery from financial market and housing meltdowns, we were also affected by the Deepwater Horizon Oil Spill, whose effects are not accounted for in our economic forecasts. The effects of this event are widespread and immeasurable and further exacerbate the slow pace of our recovery.

The aggregate effects of these conditions speak directly to the State's exposure in the event of a 1-in-100 year hurricane event. Population, job, and housing growth are all drivers of development in our state. Since the State's hurricane exposure directly correlates with the housing stock supply, it may be reasonably deduced that, with a drastic decline in new construction, the state's exposure is no greater than for the previous year.

Status of Florida Hurricane Catastrophe Fund and Citizens

The State's exposure liability is also measured by the exposure within the Florida Hurricane Catastrophe Fund (FHCF) and Citizens Property Insurance Corporation (Citizens). Last year, the FHCF exposure was forecasted at $23 billion and Citizens at $23.6 billion for a 1-in-100 year event. The exposure in both of those entities has dropped to $18.8 billion and $21.4 billion, respectively.[1] This will result in a decrease in the issuance of additional debt that must be obtained to cover shortfalls and will reduce the likelihood of assessments to policyholders.

Conclusion - Little Change in Expose Expected in 2011

Due to the slow economic growth in population, job, and housing markets and notable reductions in the probable maximum losses in the FHCF and Citizens, it is unlikely that Florida will experience any significant increase in its hurricane exposure; rather, it is likely that its exposure is no more than during the previous year. Because of the stagnation in the housing sector and the lack of additional exposure in evidence, the data in the 2009 and 2010 Reports on the Economic Impact of a 1-in-100 Year Hurricane on the State of Florida will serve as reasonable maximum estimates for the State's hurricane exposure for the 2011 season.

[1] For a more detailed breakdown of FHCF and Citizens exposure, retention, and potential shortfalls, see the Feburary 2011 *Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments*