Economic Impact of a 1-in-100 Year Hurricane

Department of Financial Services

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Purpose of Report
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.

2009 Report on the Economic Impact of a 1-in-100 Year Hurricane
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 be 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.

2013 Report on the Economic Impact of a 1-in-100 Year Hurricane

Economic Conditions Affecting 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. Florida has consistently had the one of the highest number of foreclosure filings and last year claimed the top spot as the state with the highest foreclosure rate and number of foreclosure filings in the U.S. since the housing crisis began.¹ This, along with tight credit conditions, are major contributors to the slow growth of Florida’s economy. Only in recent months have we seen an uptick in demand for housing inventory and home prices, but we are nowhere near the levels of housing activity that we historically experienced up to 2005. Median sales prices for existing homes have shown improvement, posting the highest number March since October 2008, but median sales prices are still substantially below the nation as a whole.² The current housing picture, coupled with the percentage of Florida homes with mortgages that are still underwater raises questions about the number and quality of repairs that would be undertaken in the aftermath of a 1-in-100 year hurricane. In this situation, there is little incentive for homeowners to undertake costly out-of-pocket repairs and many would be motivated to just walk away. Similarly, homeowners who were already financially stressed may have allowed insurance payments to lapse or may have reduced coverage below full replacement value. They too would have incentives to abandon their properties entirely. Further, it is unknown exactly how banks and other mortgage-holders would deal with properties previously taken back in foreclosures – in terms of timing, breadth of repairs, and extent of rebuilding efforts. While these issues would

¹ [http://edr.state.fl.us/Content/presentations/economic/FlEconomicOverview_4-23-13.pdf](http://edr.state.fl.us/Content/presentations/economic/FlEconomicOverview_4-23-13.pdf)  
² [http://edr.state.fl.us/Content/presentations/economic/FlEconomicOverview_4-23-13.pdf](http://edr.state.fl.us/Content/presentations/economic/FlEconomicOverview_4-23-13.pdf)
not add to the immediate cost of the storm, they would be a serious drag on economic recovery in an already uncertain time.

Florida has made great strides in adding jobs to our economy over the last several years, but it will still be some time before that translates into real numbers for economic recovery. Finally, the State’s primary driver of economic growth is population growth and we have seen a flattening of population growth the past several years; future predictions indicate slower growth than we have experienced in the past – 0.9% compared to a historic 3% average annual growth from 1970-1995.  

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 stagnation 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). In 2009-2010, when the Milliman report was commissioned, 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 dropped to $18.8 billion and $21.4 billion, respectively, in 2010-2011.  

For 2012-2013, the exposure has further dropped to $17 billion and $18.3 billion, respectively. This, paired with an increase in the cash balances in the FHCF and Citizens due to little to no storm activity, will

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3 [http://edr.state.fl.us/Content/presentations/economic/FlEconomicOverview_4-23-13.pdf](http://edr.state.fl.us/Content/presentations/economic/FlEconomicOverview_4-23-13.pdf)

4 For a more detailed breakdown of FHCF and Citizens exposure, retention, and potential shortfalls, see the January 2013 Annual Report of Aggregate Net Probable Maximum Losses, Financing Options, and Potential Assessments
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 Exposure Expected in 2013**

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 slow growth 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 continue to serve as reasonable maximum estimates for the State’s hurricane exposure for the 2013 season.