

Insurance & Banking Subcommittee

Wednesday, September 18, 2019
3:00 pm – 5:00 pm
Sumner Hall (404 HOB)

Jose Oliva
Speaker

Byron Donalds
Chair

Committee Meeting Notice

HOUSE OF REPRESENTATIVES

Insurance & Banking Subcommittee

Start Date and Time:	Wednesday, September 18, 2019 03:00 pm
End Date and Time:	Wednesday, September 18, 2019 05:00 pm
Location:	Sumner Hall (404 HOB)
Duration:	2.00 hrs

Update by the Florida Hurricane Catastrophe Fund

Insurance Consumer Advocate Overview

NOTICE FINALIZED on 09/11/2019 4:04PM by Harrell.Lindsey

The Florida House of Representatives

Commerce Committee

Insurance & Banking Subcommittee

Jose R. Oliva
Speaker

Byron Donalds
Chair

AGENDA

September 18, 2019
404 House Office Building
3:00 PM – 5:00 PM

I. Call to Order & Roll Call

II. Insurance Consumer Advocate Overview

Tasha Carter – Florida's Insurance Consumer Advocate
Florida Department of Financial Services

III. Update by the Florida Hurricane Catastrophe Fund

Anne Bert – Chief Operating Officer
Florida Hurricane Catastrophe Fund
State Board of Administration of Florida

IV. Adjournment

303 House Office Building, 402 South Monroe Street, Tallahassee, Florida 32399-1300
(850) 717-4871 Fax: (850) 413-0419

Insurance Consumer Advocate Overview

FLORIDA'S INSURANCE CONSUMER

ADVOCATE

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

Tasha Carter

OVERVIEW OF INSURANCE CONSUMER ADVOCATE

HOUSE INSURANCE AND BANKING SUBCOMMITTEE

SEPTEMBER 18, 2019

TASHA CARTER

Florida's Insurance Consumer Advocate

CFO JIMMY PATRONIS

INSURANCE CONSUMER ADVOCATE

- **CREATED BY FLORIDA LEGISLATURE IN 1992**
  - Section 627.0613, Florida Statutes
- **OVERSEEN BY THE CHIEF FINANCIAL OFFICER**
  - Appointed by Chief Financial Officer Jimmy Patronis
  - Reports Directly to the Chief Financial Officer
  - Works Independently from the Department of Financial Services
- **ROLE OF THE INSURANCE CONSUMER ADVOCATE**
  - Represent the General Public before the Department and OIR
  - Examine Rate and Form Filings Submitted to OIR
  - Recommend Actions to the Department and OIR
  - Represent the Public on Appointed Boards and Public Forums

FLORIDA'S INSURANCE CONSUMER ADVOCATE
DEPARTMENT OF FINANCIAL SERVICES
Tasha Carter

INSURANCE CONSUMER ADVOCATE

SERVES THE INTERESTS OF FLORIDA'S INSURANCE CONSUMERS

- SEEKS PUBLIC INPUT
- SERVES AS OFFICIAL REPRESENTATIVE FOR INSURANCE CONSUMERS
  - For Actions or Proceedings Before the Department or OIR
  - Any Proceeding Before DOAH Relating To Subject Matter Under DFS/OIR

"A Voice for Florida's Insurance Consumers"

FLORIDA'S INSURANCE CONSUMER ADVOCATE
DEPARTMENT OF FINANCIAL SERVICES
Tasha Carter

VISION OF THE INSURANCE CONSUMER ADVOCATE

The Vision of the ICA centers around 3 primary principles:

1. BALANCING FLORIDA'S INSURANCE MARKET
2. IDENTIFYING TRENDS AND IMPROVING MARKET PRACTICES
3. REPRESENTING THE CONSUMER'S INTEREST IN RATE AND FORM FILINGS

Additional focus areas:

- INCREASING CONSUMER AWARENESS AND EDUCATION
- ASSISTING CONSUMERS WITH INSURANCE-RELATED MATTERS
- ENGAGING LEGISLATIVELY TO REPRESENT FLORIDA'S INSURANCE CONSUMERS

FLORIDA'S INSURANCE CONSUMER ADVOCATE
DEPARTMENT OF FINANCIAL SERVICES
Tasha Carter

FLORIDA'S INSURANCE CONSUMER

ADVOCATE

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

Tasha Carter

OFFICE THE INSURANCE CONSUMER ADVOCATE

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TASHA CARTER

FLORIDA'S INSURANCE CONSUMER ADVOCATE

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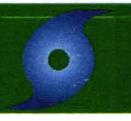
CFO JIMMY PATRONIS

STATE BOARD OF ADMINISTRATION

FLORIDA HURRICANE CATASTROPHE FUND

HOUSE INSURANCE & BANKING SUBCOMMITTEE

SEPTEMBER 18, 2019



Florida Hurricane Catastrophe Fund Basics

- The FHCF was created after Hurricane Andrew with an exclusive **statutory purpose** of protecting and advancing the state's interest in maintaining residential property insurance capacity.
- This purpose is accomplished by:
  - Providing a stable, ongoing, and predictable source of reimbursement to Florida residential property insurers for a portion of their catastrophic hurricane losses at a stable and predictable price, ultimately providing market stability
  - Being sustainable for the long-term
- How it is sized, structured, and operated is critical.
- The intent of the Legislature was for it to be tax exempt; therefore, it was structured as a state trust fund under direction and control of the SBA with this specific purpose.

Florida Hurricane Catastrophe Fund Basics

- All residential property insurance companies must participate. Provide wind only coverage.
- Annually, participating insurers (by law):
  - Execute the Reimbursement Contract by March 1
  - Report their exposures of insured values by Sept 1
- Funded by an "actuarially indicated" premium collected from the participants based on their exposure data. This represents their proportionate share of residential risk exposure in the State.
- This premium determines their retention (like a deductible) and their coverage limit.

Florida Hurricane Catastrophe Fund Basics

- Individual company losses are reimbursed in excess of their retentions, up to their coverage limit based on their coverage option selected - 45%, 75% or 90% (like a co-payment)
- When premium revenues are not sufficient to cover losses, the FHCF may issue bonds backed by emergency assessments on a wide range of property/casualty insurance premiums
- Premiums paid by insurers are generally lower than premiums for comparable private sector reinsurance

Florida Hurricane Catastrophe Fund Basics

- Premiums are prospective only…this year's premiums can't be used to pay prior year losses
- Structured to build up its cash balance and minimize reliance on debt and assessments
- Total coverage is limited by statute to $17 billion for any one hurricane season
- FHCF is exempt from federal taxes under an IRS Private Letter Ruling

Florida Hurricane Catastrophe Fund Basics

- Oversight and Accountability:
  - Administered by the State Board of Administration(SBA) Trustees (Governor, Chief Financial Officer, and Attorney General)
  - FHCF Advisory Council – 9 members appointed by the Trustees
  - SBA Audit Committee – 3 members appointed by the Trustees
  - SBA Risk and Compliance Programs
  - External Audits of the FHCF:
    - Financial Statement Audit - annual
    - SOC 1 audit of the FHCF's Administrator, Paragon Strategic Solutions - annual
    - SBA Internal Audit
    - Auditor General of the State of Florida

Implementation of HB 301

HB 301 increased the required loss adjustment expense (LAE) allowance in the FHCF Reimbursement Contract from 5% to 10% of reimbursed losses, beginning with the 2019-2020 contract year (begins June 1, 2019)

Timeline

February 1, 2019 —Statutory deadline for adoption by the SBA Trustees of **2019-2020** Reimbursement Contract (per Statute)

March 1, 2019 —Last day for participating insurers to execute FHCF Reimbursement Contract for 2019-2020 (per Statute)

March 19, 2019 —Premium Formula for 2019-2020 and rule revisions presented in rule development workshop and FHCF Advisory Council meeting; Advisory Council recommends approval

Implementation of HB 301

March 27, 2019 — Draft rates posted on FHCF website in excel format

April 2, 2019 —Premium Formula approved by statutorily required unanimous vote of the SBA Trustees (Governor, Chief Financial Officer, and Attorney General)

April 11, 2019 —HB 301 (2nd Engrossed) passed by House

May 3, 2019 —HB 301 (2nd Engrossed) passed by Senate

Implementation of HB 301

May 30, 2019 —Three 2019-2020 rules and Premium Formula revised and presented at rule development workshop and FHCF Advisory Council meeting; Advisory Council recommends approval

- Revised Rule 19-8.010 provided an additional LAE allowance of 5% of reimbursed losses for the 2019-2020 Reimbursement Contract, in addition to the 5% already provided, to total 10% of reimbursed losses
- Revised Premium Formula included an overall increase of 2.18% ($26 million) to account for the increase in expected losses attributable to the LAE increase

June 1, 2019 —Effective date of coverage under 2019-2020 Reimbursement Contract

June 18, 2019 —HB 301 signed by the Governor

July 25, 2019 —Revised 2019-2020 rules and Premium Formula approved by SBA Trustees, including unanimous vote to approve Premium Formula

Implementation of HB 301

2020-2021 Contract Year Rulemaking Begins

August 23, 2019 —Revised Rule 19-8.010, FAC, incorporating the proposed Reimbursement Contract for **2020-2021**, presented at rule development workshop and FHCF Advisory Council meeting, Advisory Council recommends approval

- The Reimbursement Contract for 2020-2021 includes an LAE allowance of 10% of reimbursed losses, as required by HB 301

September 24, 2019 (projected) —Revised rule and 2020-2021 Reimbursement Contract to be considered by SBA Trustees

February 1, 2020 —Statutory deadline for adoption of 2020-2021 Reimbursement Contract

Implementation of HB 301

Retroactive legislation may potentially be disruptive to some companies and to the market

- Can create uncertainties and disadvantages for the insurers
- Most Florida property reinsurance is placed on or before June 1
- When FHCF coverage is changed after the Reimbursement Contract is executed, insurers might not be able to change their private reinsurance in time to take advantage of the expected cost shift

Requirements of FHCF Rates

- Section 215.555(5), F.S., establishes the requirements for FHCF ratemaking
- The Premium Formula must be developed by an independent consultant selected by the SBA
  - The SBA competitive procurement process is used to select the independent consultant
- The Premium Formula requires the unanimous approval of the SBA Trustees (Governor, Chief Financial Officer, and Attorney General)

Requirements of FHCF Rates

- "Actuarially Indicated" rates are required
  - Statutory definition: "Actuarially indicated" means…an amount determined according to principles of actuarial science to be adequate, but not excessive, in the aggregate, to pay current and future obligations and expenses of the fund, including additional amounts if needed to pay debt service…, and determined according to principles of actuarial science to reflect each insurer's relative exposure to hurricane losses.

Requirements of FHCF Rates

- Premiums must be based on exposures (insured values by ZIP code, line of business, and construction type) as reported annually by insurers and must be based on hurricane loss models approved by the Florida Commission on Hurricane Loss Projection Methodology
  - The FHCF uses all currently-approved models
  - The Premium Formula also reflects a statutory "cash build-up" factor which reduces reliance on debt
  - The Premium Formula does not include the profit and contingency factor used in private sector rates

Requirements of FHCF Rates

No underwriting: The FHCF must provide coverage to each eligible insurer on identical terms

- No variation in rates
- No variation in coverages (except to reflect the insurer's selected options)
- Assures that each participant has its fair share of the finite resources (capacity) available for reimbursement.
- Risk-based rating

Ratemaking Process - Transparency

Opportunities throughout the ratemaking process for public information and public input:

- Rule development workshop
- Rule Hearing
- FHCF Advisory Council
- Cabinet Meeting/SBA Trustees meeting
- Written comments are also welcomed

The proposed Premium Formula Report is posted on the Internet in advance of the Advisory Council meeting at which it will be considered and rates in excel format are posted to assist companies. The current Premium Formula report is available on the Internet at http://fhcf.paragon.aonbenfield.com/rates-and-premium/2019/

Consumer and Industry Impacts

In the aggregate, FHCF premiums represent about 10% of the total cost of residential insurance

- But that cost could be much higher if insurers had to replace FHCF coverage with private sector reinsurance
- Unlike FHCF risk-based premiums, private sector reinsurance premiums and availability can vary dramatically from year to year
- The actual impact of FHCF costs on a property owner will vary depending on how the insurer passes these costs along to consumers, whether the property is in a high-risk location, the FHCF coverage percentage selected by their insurer, and other factors

Consumer and Industry Impacts

- In the case of HB 301, the FHCF premium increase for 2019 translates to about a 0.2% average increase for a typical residential premium, but this may be offset by an insurer's reduced need for reinsurance
- Florida's property insurance market is inherently volatile because of hurricane risk
- The stability and predictability of FHCF rates and coverage reduce volatility and help maintain a viable private sector market for homeowner's insurance

FHCF's Financial Strength

- Very strong financial position for the current 2019 hurricane season:
  - $17.0B Maximum Statutory Limit
  - $11.18B Projected Year-End Fund Balance
  - $ 1.65B Pre-event Bonds (final maturity 2021)
  - $ 0.92B Risk Transfer
- No post-event bonds outstanding
- Emergency assessments ended – 0% on all policies new or renewed on or after 1/1/15

Not Drawn to Scale.

2019/2020 Contract Year

Preliminary Estimates

Not Official (For Illustrative Purposes Only)

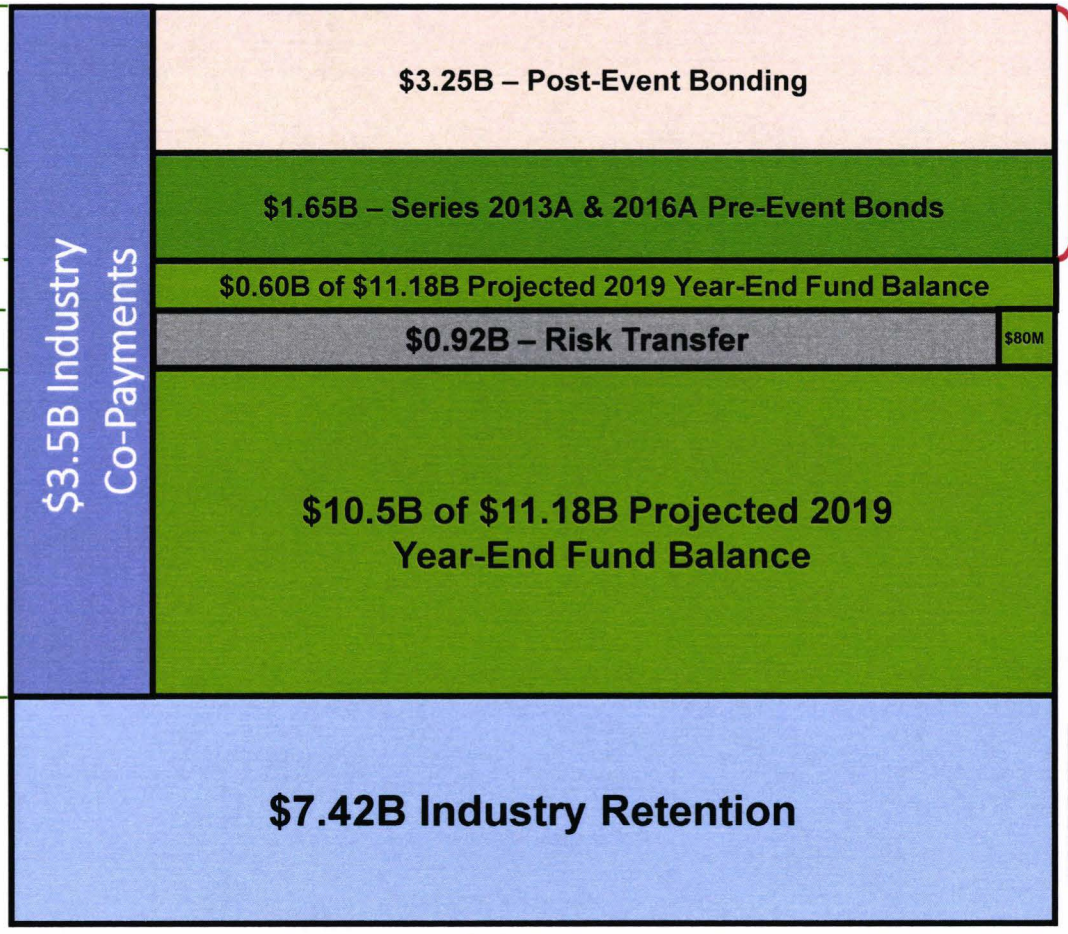
as of July 11, 2019

$17B FHCF Capacity

(Loss Adjustment Expense 10% allowance is included in the capacity)

Assumption: *Ultimate Losses of $5.0B for Hurricane Irma in 2017*

Ground Up Losses ($B)	Return Time (Years)	Probability (%)
$26.4	39.1	2.56%
$22.7	32.0	3.12%
$20.9	28.6	3.49%
$20.2	27.4	3.65%
$19.1	25.6	3.90%
$7.4	9.9	10.10%



$4.9B Potential Post-Event Bonding

$11.18B Cash
1.65B 2013A & 2016A Bonds
0.92B Risk Transfer
$13.75B Total Resources

-$17.00B Statutory Limit
$3.25B Potential Bonding Needed

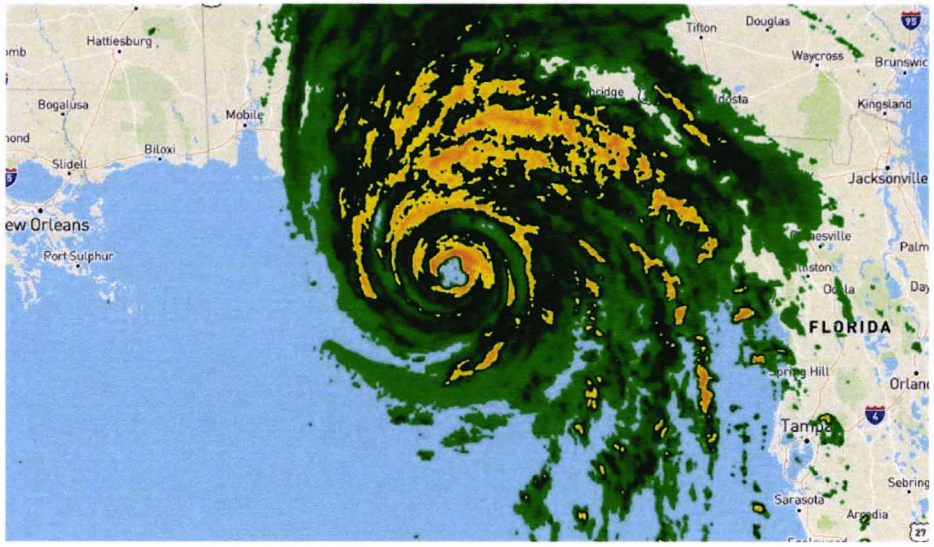
Post-Event Bonding Capacity May 2019

$8.6B

- Represents industry losses. FHCF probabilities are lower at the top loss levels and higher at the lower loss levels. All insurers would need to reach their maximum coverage limit in order to exhaust the last billion of FHCF Coverage. Insurers can trigger coverage below the industry retention.
- Individual company retentions are their share of the industry retention.

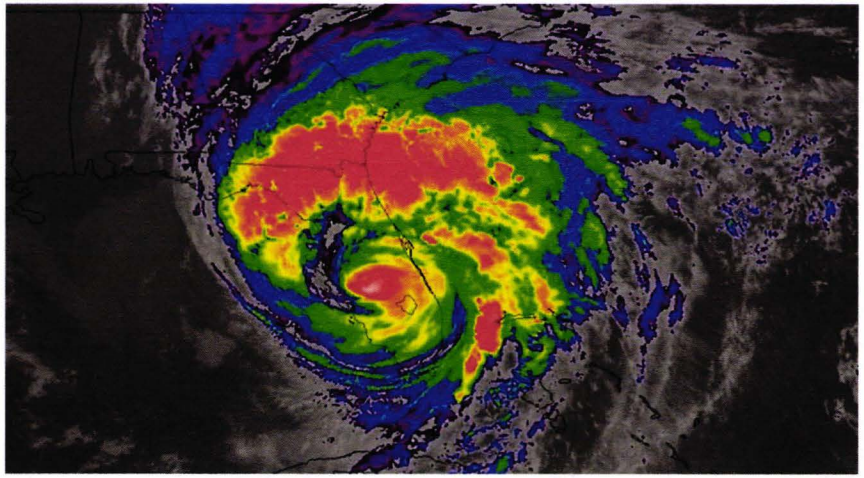
Hurricane Michael

- Landfall on October 10, 2018, at Mexico Beach as a strong Category 5 storm.
- Estimated Ultimate FHCF loss of $1.450 billion
- FHCF has reimbursed $645 million as of September 11, 2019.



Hurricane Irma

- First landfall on September 10, 2017, at Cudjoe Key as a Category 4 storm.
  - Second landfall at Marco Island as a Category 3
- Estimated Ultimate FHCF loss of $5 billion
- FHCF has reimbursed $2.84 billion as of September 11, 2019



Contact Information

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