

**State Board of Administration**

**Florida Hurricane  
Catastrophe Fund**

**House of Representatives  
Conference on Property Insurance**

***December 5, 2006***

# 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 Florida State Board of Administration (SBA)**
- **Office of Insurance Regulation Enforces**

# Reasons for the Creation of the FHCF

- **Following Hurricane Andrew, reinsurance capacity contracted.**
- **Insurers attempted (or threatened) to withdraw from the state and/or cancel or nonrenew policyholders in large numbers.**
- **State action was needed to stabilize the marketplace.**
- **A state program was created to add insurance capacity.**

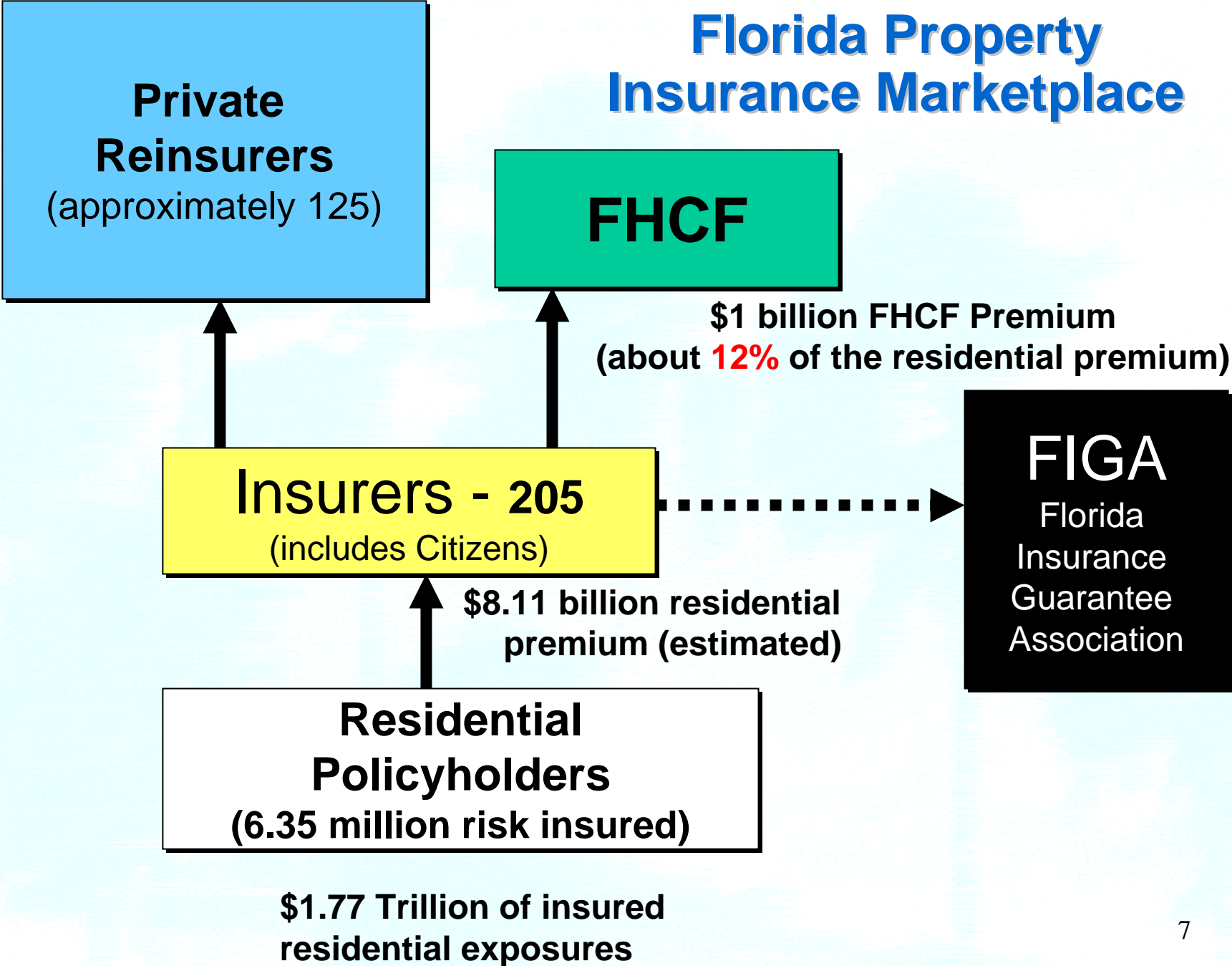
# Benefits of the FHCF

- **Provides reinsurance at one-fourth to one-fifth the cost of private reinsurance.**
- **Helps keeps residential rates down.**
- **Helps stabilize the market.**
- **Helps keep business out of the residual market.**

# Oversight of the FHCF

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

# Florida Property Insurance Marketplace



# How the FHCF Operates

- Insurers required to report exposures
- FHCF Premiums based on an insurer's exposure
  - Rating Factors: Location, construction, deductibles, & mitigation factors
  - 25% Rapid Cash Build-Up Factor (added)
- FHCF coverage is determined by FHCF premiums
  - Insurer retention (deductible) is a multiple of FHCF premiums
  - Limit of coverage (payout) is a multiple of FHCF premiums
- Insurer selects 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 first 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 workers' comp, med mal (excluded only until 2007), flood, and accident and health.**
- **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 the lesser of exposure growth or the growth in the cash balance).**
- **Subsequent Season Capacity is estimated at \$15 billion (multi-season capacity of over \$50 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.**

# Loss Reimbursement Process

- **Insurer requirements**
  - Report exposure data
  - Premium and Coverage determined
- **Loss reports**
  - Interim loss report (non-binding, within two weeks after event)
  - Proof of loss report (required by 12/31, but may file as often as weekly)
  - Quarterly loss reports required (March, June, September, October)
- **Retention is on a per occurrence basis**
- **Coverage limit is on an aggregate basis**

# Important Dates

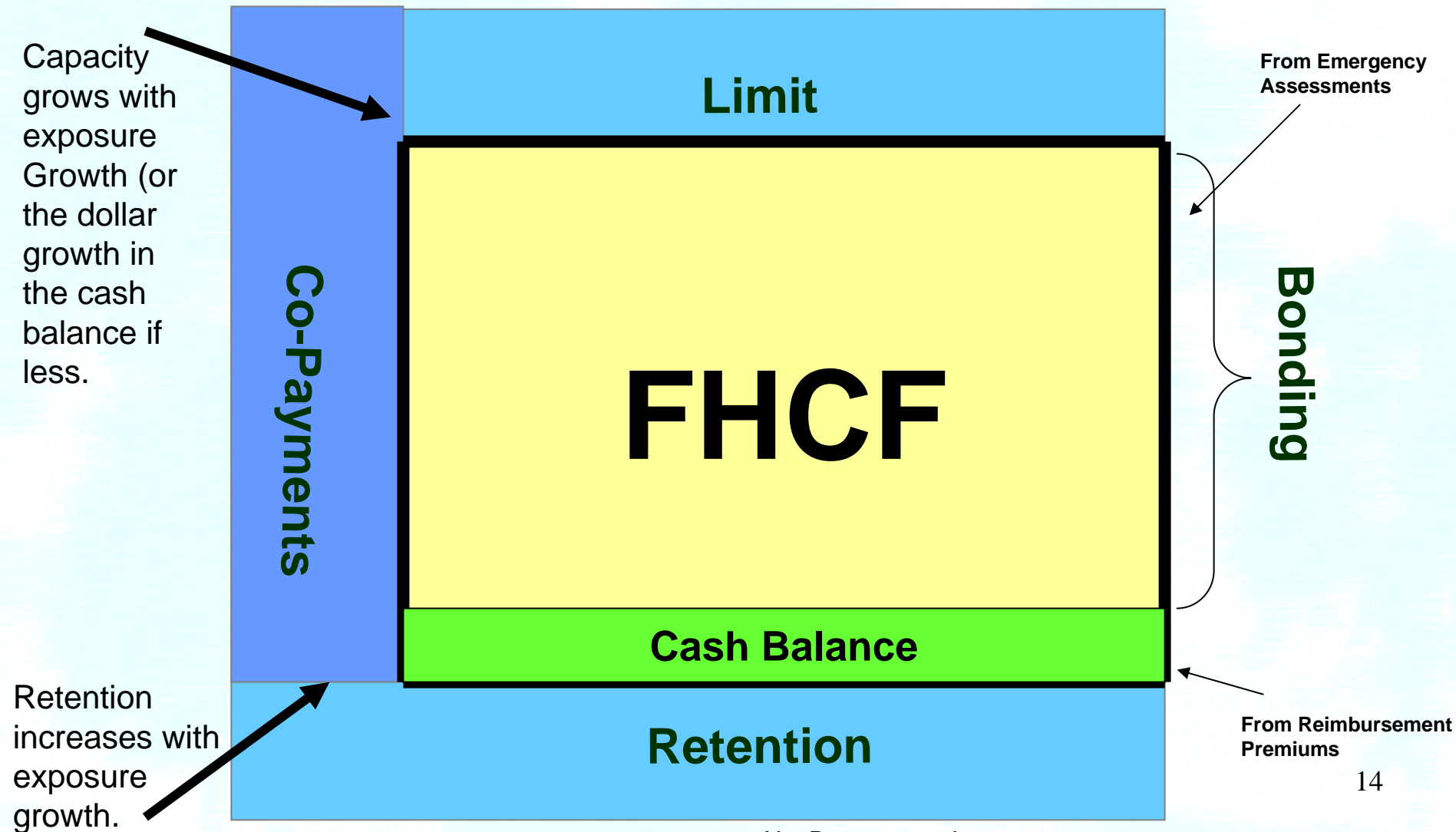
- I. **June 1** – Contracts signed and coverage options selected
- II. **June 30** – “As of” reporting date, determines FHCF premium, retention, limit of coverage (payout)
- III. **August 1** – **1<sup>st</sup> Provisional Premium Due**
- IV. **September 1** – **Exposure Data Due**
- V. **October 1** – **2<sup>nd</sup> Provisional Premium Due**
- VI. **December 1** – **3<sup>rd</sup> 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**

\*The FHCF generally reimburses insurers from 2-7 days after receiving a proof of loss report.

# History of Significant Legislative Changes

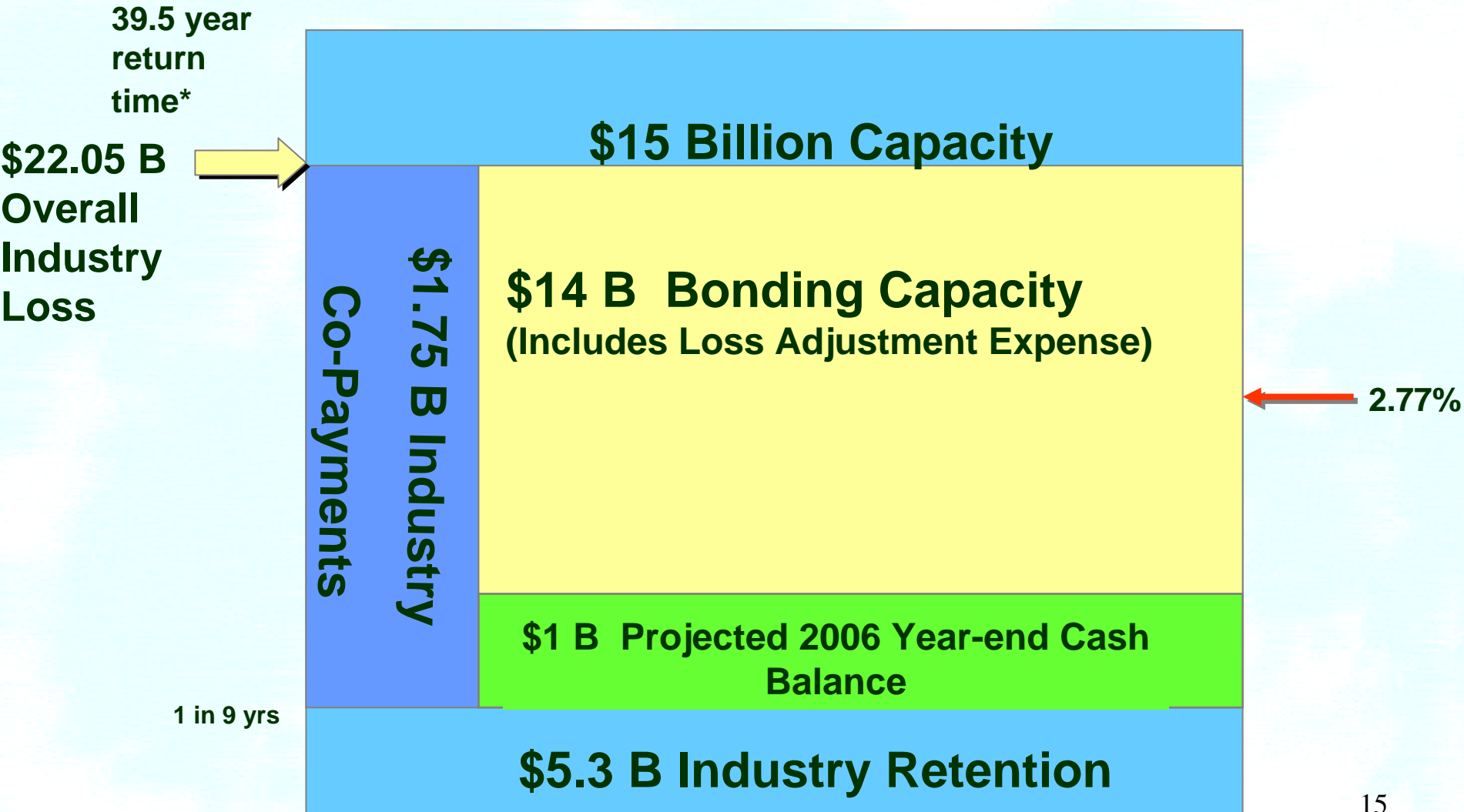
- **1995** - tax exempt status for the fund and greater equity among insurers
- **1996** - public benefits corporation created and provisions necessary to be able to issue tax exempt debt
- **1999** - creation of subsequent season capacity
- **2002** – Addition of “additional living expense (ALE),” collateral protection insurance, and rapid cash buildup factor
- **2004** – Increased limit to \$15 billion limit to grow with exposure growth, reset retention to \$4.5 billion, increased assessment authority, included surplus lines in assessment base, and other administrative changes.
- **2005** – Reset the aggregate insurance industry retention to \$4.5 billion for 2005. Full retention applied to the two largest events for each insurer and then drops down to 1/3 for all other events during a contract year.
- **2006** – Rapid cash build-up factor of 25%, \$10 million additional coverage option for limited apportionment companies (retention 30% of surplus), Citizens and transfer of policies from a liquidated insurer.

# Structure of the FHCF



# Initial Season Capacity For the 2006 Hurricane Season

(Unofficial Estimate)

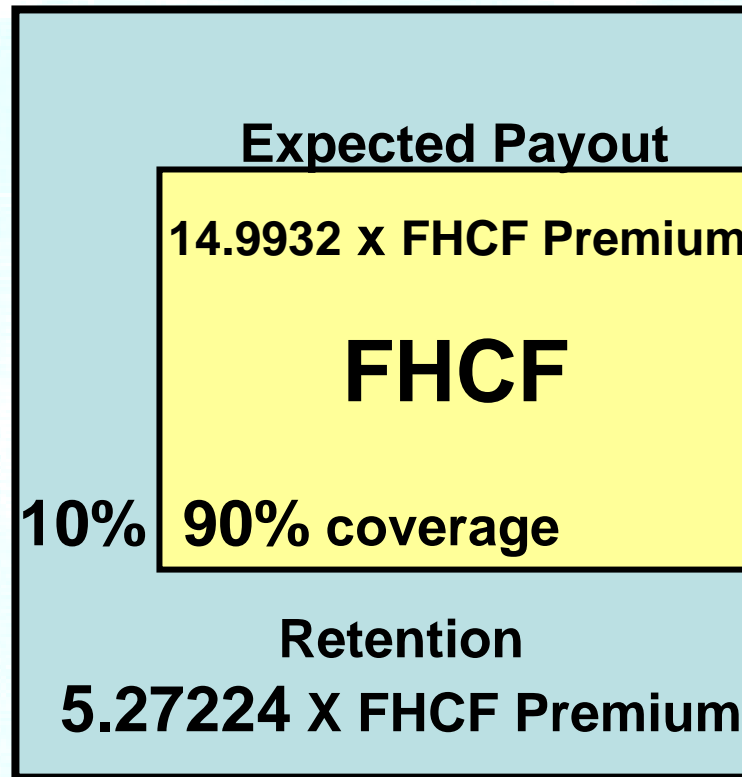


# 2006 FHCF Coverage\*

Based on \$15 b xs \$5.3 b

Payout Multiple – 14.9932 (projected)

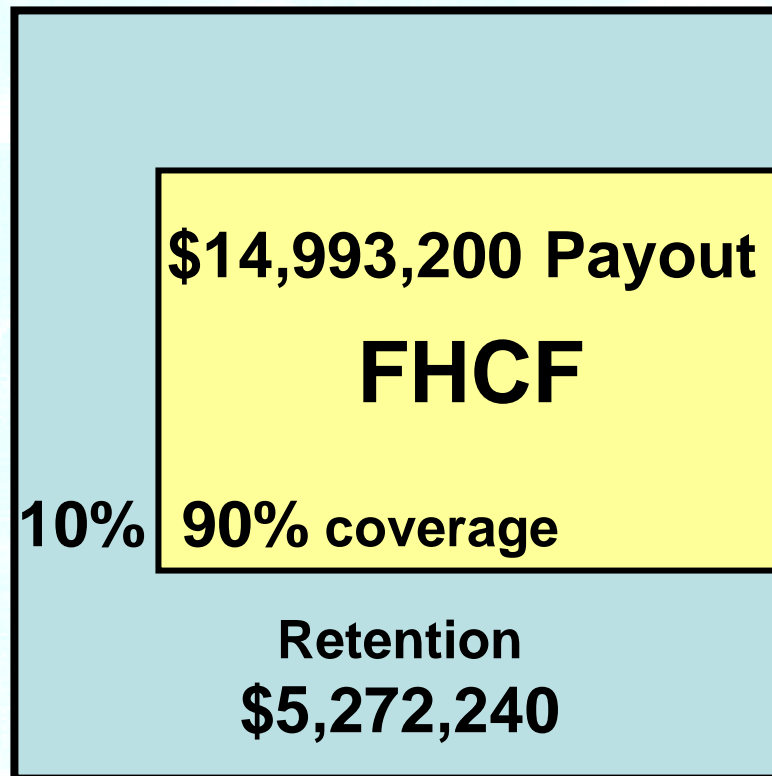
Retention Multiples – 5.27224 (90%), 6.32669 (75%), 10.54449 (45%)



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

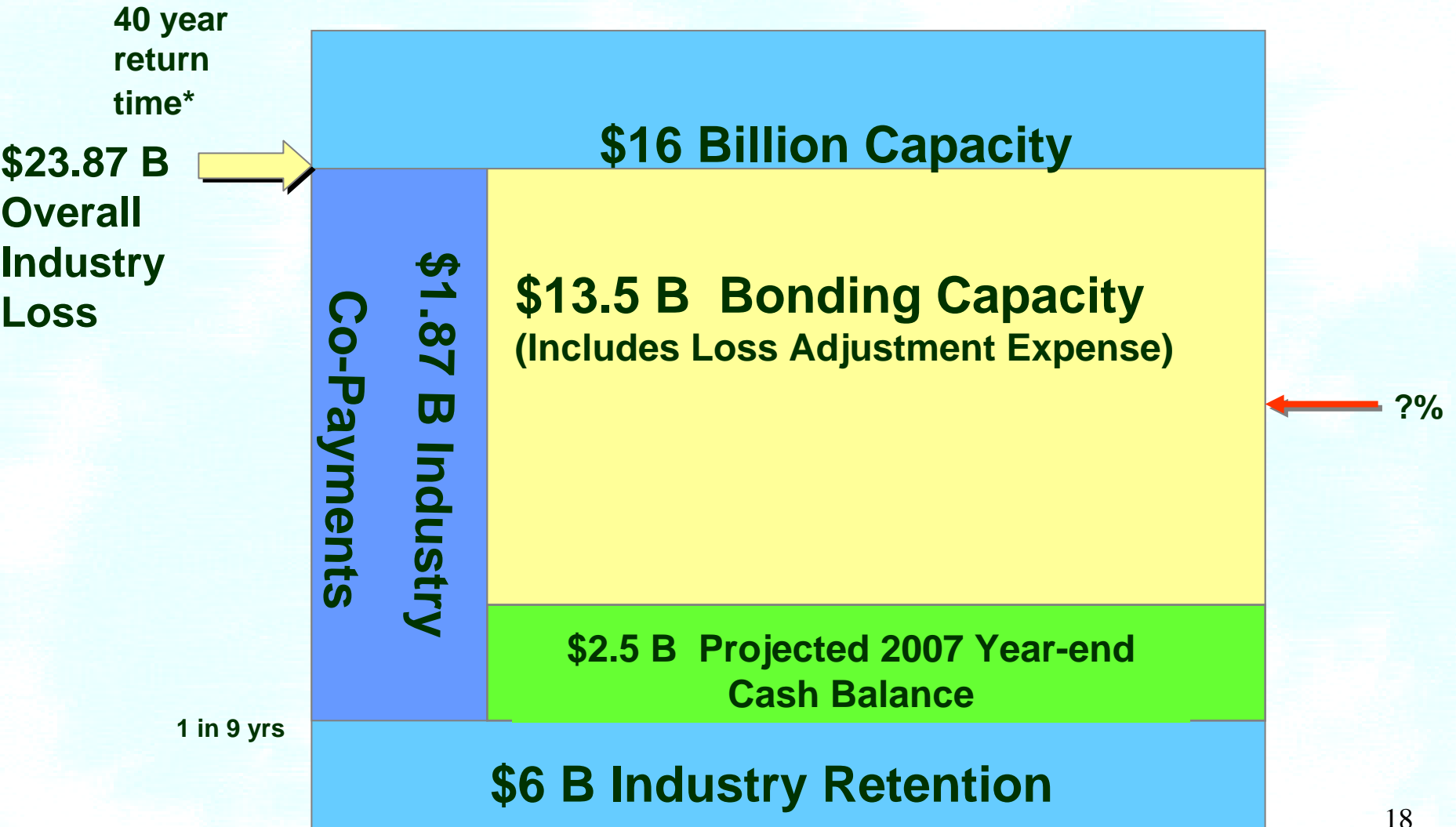
# 2006 FHCF Coverage

Example: \$1 million FHCF Premium



# Initial Season Capacity For the 2007 Hurricane Season

(Unofficial Estimate)



\*Return time not adjusted for premium/exposure growth.

# 2004 & 2005 FHCF Losses

11-22-06

**2004**

**\$3.95 Billion**

(\$281 m outstanding)

<b>Total Losses</b> \$3.95 B
<b>Reported Losses</b> 97.9% \$3.867 B
<b>Paid Losses</b> \$3.669 B 94.9%

\$83 m Reserves for future reported losses

+\$198 m reserves for reported losses

**\$281 m** Total Cash Assets available to pay the remaining 2004 losses

**2005**

**\$4.50 Billion**

(\$946 b outstanding)

<b>Total Losses</b> \$4.50 B
<b>Reported Losses</b> 95.0% \$4.276 B
<b>Paid Losses</b> \$3.557 B 83.2%

\$224 m Reserves for future reported losses

+\$719 m Reserves for reported losses

**\$946 m** Total needed to pay the remaining 2005 losses

# FHCF 2004 & 2005 Losses

- **2004 Losses -- \$3.95 billion**
  - Paid -- \$3.668 billion
  - Reported -- \$3.867 billion
  - Ultimate FHCF Loss -- \$3.95 billion
  - Total Industry Residential Loss -- \$16.013 billion
- **2005 Losses -- \$4.5 billion**
  - Paid -- \$3.557 billion
  - Reported -- \$4.276 billion
  - Ultimate FHCF Loss -- \$4.5 billion
  - Total Industry Residential Loss -- \$10.075 billion

# Bonding

- **2005 Post-Event Bonds -- \$1.35 billion**
  - To cover shortfall associated with 2005 losses.
- **2006 Pre-Event Notes -- \$2.8 billion**
  - To provide for liquidity for the 2006 hurricane season.

<u>Ratings:</u>	<u>Long Term</u>	<u>Short Term</u>
Standard & Poors –	<b>AA</b>	<b>A-1+</b>
Fitch --	<b>AA</b>	<b>F1+</b>
Moody's --	<b>Aa3</b>	<b>P-1</b>

# FHCF Examinations

- **Statutory Authority**
- **Types of Exams**
  - **Exposure and Loss Reimbursement**
- **Purpose**
  - **Exposure exams: to verify accuracy and completeness of reported exposure data**
  - **Loss Reimbursement: to verify accuracy of reported paid losses**

# Summary

- **The FHCF is a state operated reinsurance program.**
- **The FHCF is mandatory for insurers writing residential property insurance in Florida.**
- **The FHCF is tax-exempt as a state entity and can issue tax-exempt debt.**
- **Provides \$15 billion of reinsurance capacity (2006) .**
- **Financed by reimbursement premiums paid by participating residential property insurers.**
- **Premiums are based on insurer's exposure (insured values subject to hurricane loss) in the state.**
- **If the cash balance is not sufficient to pay losses, bonding is required.**
- **The bonds are financed by emergency assessments on all property & casualty lines of business including surplus lines except workers' compensation, medical malpractice (3 year limitation only-2007), accident & health, and flood.**

# Contact Information

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