



Florida Office of Insurance Regulation Legislative Budget Request and Priorities Fiscal Year 2007-2008



QUASR Re-Engineering Issue Code: 36324C0	Recurring \$0	Non-Recurring \$683,000
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Pursuant to Section 624.424(10), Florida Statutes, each insurer doing business in Florida is required to file a quarterly report containing data for personal lines and commercial lines residential property insurance policies. This Quarterly Supplemental Reporting System (QUASR) is supplemental to the insurers' quarterly financial statements. The data is collected quarterly on a month by month basis. The proposed upgrade and expansion of QUASR will provide more accurate and timely data for stakeholder analysis to make more informed policymaking, regulatory and financial oversight decisions. Additionally, by leveraging existing I-Portal technologies, Florida's insurance consumers and any interested third parties will receive enhanced and more transparent data and regulatory information, and they will be able to conduct their own data retrieval and research. This system has not been re-engineered since 1996.

One (1) FTE – Property and Casualty Product Review - Additional Salaries and Benefits for Employee Retention Issue Code: 3000340	Recurring \$369,005	Non-Recurring \$4,726
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Property and Casualty Product Review is the business unit within the Office that reviews all property and casualty insurance form and rate filings for the State of Florida. Additionally, in 2003, the business unit assumed the responsibility for the regulation of title insurance forms and rates, with no additional resources. The Office is requesting one Senior Management Analyst II – SES, to manage the increased workload due to the additional title insurance responsibility, statutory changes resulting in the 2004 and 2005 hurricane seasons and the ever-evolving marketplace.

As the third largest state in the nation, Florida has been viewed as an attractive place to conduct business and make a home for our families. Florida has a low cost of living, a great climate, and no personal state income tax. However, in the area of recruiting the best and brightest insurance minds in the country, Florida is starting to lose the recruiting and retention battle to even the smaller states. Actuaries are required to pass numerous exams and earn and maintain a professional designation from either the Society of Actuaries (SOA) or the Casualty Actuarial Society (CAS). Florida's current actuarial staff has been recruited more diligently by other states and the private sector because of more attractive annual salaries. Private sector property and casualty actuaries with 20 plus years experience typically receive annual compensation averaging \$288,000 per year (based on the 2006 study conducted by D.W. Simpson & Company). Recently, Louisiana recruited a Florida Actuary for \$150,000 per year, \$50,000 more than the individual's current salary with 23 years experience. Florida's property and casualty actuaries average \$112,000 per year. Florida's base rate of pay for an actuary is

\$74,858. The Office is requesting \$294,309 in additional salary and rate for recruitment and retention of actuarial staff.

Public Hearing Advertisements Issue Code: 3000260	Recurring \$752,000	Non-Recurring \$0
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It is essential that residential property insurance rate hearings be open to the public. These hearings promote the requirements of the Florida Insurance Code that a rate not be excessive, inadequate, or unfairly discriminatory. Pursuant to Section 627.0629(7), Florida Statutes, the Office of Insurance Regulation (Office) is required to conduct a public rate hearing on any rate filing that is based in whole or part on data from a computer model if the filing exceeds 15 percent. The Office advertises these hearings in the Florida Administrative Weekly (FAW) and sends press releases to media and statewide newspapers for publishing.

Despite these efforts, the average attendance for a public rate hearing has been 10 participants per hearing. If proper funding is provided, the Office will be able to ensure local newspapers provide adequate notice to the local public far in advance of a public hearing or workshop taking place. In order for the Office to better achieve its goals, public participation is essential.

Funds to Develop Commercial Portion of the Public Hurricane Model Issue Code: 3000640	Recurring \$0	Non-Recurring \$554,360
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In order to develop an unbiased and non-proprietary hurricane model the Legislature approved funding beginning in Fiscal-Year 2000-2001. The former Department of Insurance enlisted experts from the State University System and external consultants to develop and maintain a risk assessment model. The model is public and non-proprietary, based on the best practices and scientific analysis available. The model is used for rate making and to assess the efficacy of disaster mitigation strategies. The Hurricane Loss Model has three essential stages: (1) model development, (2) interactive testing and (3) external validation. The development of the model entailed effort by enlisted experts in a number of areas, including: meteorology, structural engineering, spatial systems, computer modeling, actuarial science, and finance. The model, to the extent possible, uses existing databases and is modular in design. The model's elements and interactions were designed through interaction that brought together experts from public and private institutions across the country. The model is complete and has been accepted by the Office.

Private computer models have projected huge hurricane losses, which are a component used by insurers in justifying rate increases. Currently there are four major models in use by private insurance companies. Loss projections vary significantly among the models. An analysis by Office of Insurance Regulation actuaries found that one frequently used model overstated by 40 percent the cost of the 57 hurricanes that have struck Florida in the last 96 years. The same model overstated the actual losses caused by Andrew, Hugo, Erin and Opal by 20 percent. The Public Hurricane Model will provide a check on the assumptions, analysis, and results provided by the proprietary models, and provide critical assistance to the Office in the rate review process. The commercial expansion will facilitate the use of the model in reviewing the rates for condos, apartments, and other similar structures.

Two Additional Hurricane Houses Issue Code: 4000400	Recurring \$0	Non-Recurring \$1,500,000
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There is an urgent need for construction for two additional Windstorm Damage Mitigation Training and Demonstration Centers -- one in the Great Bend area of Northern Florida and one on the West Coast area of Central Florida.

A project to construct Regional Windstorm Damage Mitigation Training and Demonstration Centers, or **Hurricane Houses**, was initiated by the former Department of Insurance in 1998. The premise for this project is that a statewide network of permanent regional training and demonstration centers will facilitate training and education of the general public, homeowners and others with regard to windstorm damage mitigation methods and also support local, county, and state governments with regard to windstorm damage mitigation in related comprehensive mitigation planning.

Construction of the fourth regional training and demonstration center in the City of Davie in Broward County has recently been completed and turned over to Broward County officials. Construction of two additional centers is urgently required in order to support the objective of providing Windstorm Damage Mitigation Training and Demonstrations for Florida citizens statewide. Accordingly, funding in the amount of \$1,500,000.00 is requested to support funding of the related construction project. Proposed expenditures will cover costs associated with site preparation for each center as well as costs associated with construction of each center. Efforts will be exerted to obtain donated services and construction materials during construction of these centers to the maximum extent that this can reasonably be achieved (this occurred for the original four hurricane houses).

Outreach Tools for Florida's Senior Medigap Insurance Buyer Issue Code: 36315C0	Recurring \$0	Non-Recurring \$475,000
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The 2004 Legislature enacted HB 1629 - "The 2004 Affordable Health Care for Floridians Act". Two of the issues highlighted in the law are the growing trend toward consumer driven health care and recognition that some Floridians have been misled about what they are purchasing. The Act requires insurance carriers, health care providers, and the Office of Insurance Regulation (Office) to provide easily accessible data about pricing and quality of service information so that insurance consumers are empowered to make informed decisions about their health care and health insurance options. The effective and efficient collection, analysis and publication of data are paramount to information sharing and consumer protection. The establishment and maintenance of all viable communication channels with and between the insurance industry, consumers and the legislative and executive branches of government is vital to the success of the Act.

Medicare Supplement insurance (Medigap) is a health policy sold by private insurance companies to fill the "gaps" in the Medicare Plans. Medigap policies help Florida's seniors pay

some of the health care costs that the Medicare Plans do not cover. There are more than 30 companies insuring 650,000 Florida lives with Medigap coverage. These insurers generated more than \$1.3 billion dollars in taxable premium payments in 2005. By concept and design, Medigap policies are standardized for easy benefit comparison by the consumer. Currently, there are 12 standardized Medigap plans called "A" through "L." Each plan, A through L, has a different set of benefits. Plan A covers only the basic (core) benefits, while Plan J offers the most benefits in addition to these basic (core) benefits. The number and variety of plan benefits makes it difficult for seniors and their families to get the best policy for their individual needs.

Windstorm Damage Mitigation Training and Outreach Centers – Outreach Program Issue Code: 4000410	Recurring \$262,000	Non-Recurring \$52,000
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The state of Florida requires the development of a Windstorm Damage Mitigation Outreach Program to be deployed by each of the Windstorm Damage Mitigation Training and Demonstration Centers, Hurricane Houses, for purposes of educating and training a wide range of audiences in both technical and practical mitigation methodologies, techniques, and technology that can be applied to strengthen homes and other structures against damage by tropical storms or hurricanes. The targeted audiences for this program include: the general public; homeowners; home buyers; architects/designers; building code enforcement officials; building contractors; subcontractors; real estate professionals; building suppliers; mortgage lenders; property appraisers; property insurers; local, county and state authorities; weather and windstorm damage mitigation professionals; and others who may have an interest in windstorm damage mitigation. Construction of four Hurricane Houses has been completed and funding has been requested to construct two additional facilities in order to complete a planned statewide network of Hurricane Houses. This outreach program is essential for purposes of creating a mitigation mind set among citizens throughout Florida and to assist in breaking the cycle of destruction and reconstruction that is associated with tropical storms and hurricanes throughout Florida.

The Office recently analyzed the impact of wind protection measures on six properties currently in Citizens Property Insurance Corporation in Broward, Brevard, Sarasota, and Dade Counties with structure values varying from \$100,000 to \$400,000. Those properties utilized mitigation measures such as exterior masonry walls, roof covers, protected roof-wall connections, retrained foundations and other hurricane protection measures. The premium savings to the consumer ranged from \$770 to \$3,800 annually. Through the Hurricane Houses and the proposed Outreach Program, more Floridians can learn how to protect their most valuable asset – their homes. Research has indicated that approximately 85 percent of the five million homes in Florida are not built to the stricter building codes. And according to a report issued by the 2005 Multi-Hazard Mitigation Council of the National Institute of Building Sciences, every dollar spent on mitigation saves an average of four dollars. If Florida consumers construct better homes or properly retrofit their existing homes, this will translate into less damage due to tropical storm and hurricane force winds, which means lower costs for insurance companies, lower premiums for policyholders, and a more efficient recovery for Florida's economy.

Network Printers and Laptops	Recurring	Non-Recurring
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Issue Code: 2401200	\$0	\$94,060
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The Office of Insurance Regulation (Office) requires a hardware technology update of network printers. The current printers are over five (5) years old and most of the parts are no longer produced by the manufacturer. When these network printers malfunction, productivity stops. This is an important work stoppage and the Office is requesting funds to replace the current twenty-eight (29) network printers. These printers are used by 311 FTE positions within the Office. In addition, the Office is requesting funding for two laptop computers to be shared by the twenty-three (23) attorneys in the office. The litigation attorneys are frequently out of the office at court, depositions, or administrative hearings. The ability to have a portable work station increases efficiency. Regulatory attorneys may be at hearings, rule workshops, or legislative meetings and also have the need to be able to work at remote locations.

Updating the Office's information technology equipment will provide the Office the resources necessary to achieve the duties required by Office staff and allow the Office to perform job duties and statutory requirements.

One (1) FTE – Legal Public Records Requests Issue Code: 3000320	Recurring \$56,814	Non-Recurring \$4,726
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Currently, the Legal Services Office uses several electronic document programs, including, but not limited to: a shared drive and folders, Client Profiles and the Companies and Other Related Entities system. Over time, these electronic document programs have saved a substantial amount of time and financial resources for consumers because of the efficient manner with which attorneys can complete legal reviews of the electronic submissions. By moving to an electronic database for all Legal Services Office documents, the Office of Insurance Regulation (Office) will realize the efficiency of retrieving electronic documents. With the increased workload of the attorney and support staff, electronic document storage is essential.

Currently, public records requests are completed by searching a hard copy file room for each document related to the request, which many times takes hours out of an attorney's normal duties and responsibilities. Based on previous experience, many hard copy searches have lasted six hours. At \$25/hour of attorney time, the basic search would cost \$150 in human resource time. The same search could be completed electronically in less than ½ hour or \$12.50 of attorney time. In addition, providing the documentation to the public requestor usually involves printing each document and mailing the documents. With electronic documents, there is no printing and mailing time, the documents can be sent immediately to the requestor and received within moments. Funding for a Government Analyst I position will allow the Legal Services Office to begin implementing an electronic document management system for all legal case files, which will save valuable office space and make retrieval more efficient. In addition, moving files to an electronic format will allow for quicker responses to public records requests and will save money for the consumer. Providing electronic information is less expensive than providing copied paper documents. Having an electronic "file room" and person dedicated to managing the storage of these documents results in more expedient searches and legal research.

One (1) FTE – Inspector General’s Office Issue Code: 4B01000	Recurring \$69,970	Non-Recurring \$4,726
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The Office of Insurance Regulation (Office) requires additional resources and is requesting one Internal Auditor/Investigator position in the Office of Inspector General (OIG). This Office’s OIG was established in October 2003. The scope of activities performed by the OIG includes: investigations; internal audits – performance audits, compliance audits, financial audits; management reviews; business consultation engagements; technical consultation engagements; and numerous special projects. Over the past three years, apart from developing the OIG function within the Office, the Inspector General (IG) has been called upon to provide extensive technical and business consultation support to a broad range of challenging OIR projects, complete frequent management reviews, and complete numerous investigations and inquiries.

Approval of this request will enhance the Office’s internal auditing, review, analysis and management support activities. Funds will be applied for salaries, benefits, office space, office equipment, computer hardware, and computer software. The Internal Auditor/Investigator position incumbent will support the Commissioner, Chief of Staff, Deputy Commissioners, Directors and other management and staff as well as all of this Office’s programs, functions and sub-functions. Activities and tasks that will be performed by the Internal Auditors/Investigators will be those that are identified in the OIG’s Annual Plans and Long-term Plans, as well as those that emerge from time to time as a result of management’s interests and concerns.