



Office of Insurance Regulation

House Committee on Insurance – September 13, 2005 Presentation by Insurance Commissioner, Kevin McCarty - Talking Points -

▪ Update on the 2004-2005 Hurricane Season

1. 2004 Hurricane Season – Hurricanes Charley, Frances, Ivan and Jeanne (data as of August 15, 2005):

- Estimated Gross Property Losses from all four storms: \$20.8 billion
- Estimated Deductibles Paid by Policyholders: \$1.5 billion
- Total # of Claims Reported: 1.6 million
- Total Loss Claims: 52,346
- Claims Payments Made by the Companies: \$19.7 billion out of the estimated \$20.8 billion has been distributed to policyholders (the other \$1 billion is mostly tied up in Mierzwa disputes)

Hurricane Charley:

- 481,000 claims reported representing \$7.4 billion in losses
- 96.25% of claims are closed

Hurricane Frances:

- 535,000 claims reported representing \$4.8 billion losses
- 96.0% of claims are closed

Hurricane Ivan:

- 211,000 claims reported representing \$4.8 billion losses
- 96.28% of claims are closed

Hurricane Jeanne:

- 435,000 claims reported representing \$3.9 billion losses
- 96.55% claims are closed

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2. 2005 Hurricane Season – Hurricanes Dennis and Katrina (as of September 9, 2005)

Dennis - Estimated Gross Property Losses from all counties: \$1.2 billion (the Office did receive filed claims information from all 67 counties)

- Total # of Claims: 54,376
- Total Loss Claims: 939
- Claims Payments Made by the Companies: \$203 million

Katrina - The Office has offered its assistance to Alabama, Mississippi, and Louisiana in disaster recovery efforts following Hurricane Katrina's devastation. The Office has sent the Gulf States information on Emergency Orders, Emergency Rules, and Insurance Disaster and Recovery plans to aid in their relief efforts.

- In addition, the Office is providing a leadership role through the National Association of Insurance Commissioners to assist with developing a southeastern, and ultimately a national portal for insurance claims and financial loss data.
- The Florida Office of Insurance Regulation's current system is being replicated on a national level and the Office is collecting the information for the affected states to reduce the

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amount of duplication and to promote a more efficient disaster reporting process.

- Current Katrina loss estimates from private modelers are in the \$40-\$60 Billion range (including New Orleans flood losses)

▪ Update on the 2004 Property Bill - SB 1486

Standard Rating Territories – Florida insurance companies develop their own rating territories for different lines of business.

- o The 2005 law required the Office to study the effect standard rating territories would have on Florida's consumers and Florida's marketplace.
- o The report is due January 15, 2006 and the Office is working on a contract with a national rating and statistical agent to assist in the final report.
- o Some states already define standard rating territories in law (i.e. California Earthquake Authority, Massachusetts, New York and New Jersey for PPA)

Monroe County Pilot Project – The 2005 law required the Office to evaluate the availability and affordability of insurance in areas that are virtually uninsurable due to the lack of competition. Creates a pilot project that requires Monroe County to have rates that are

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actuarially sound, and are not excessive, inadequate or unfairly discriminatory.

- The Office's senior research economist is in the process of evaluating the Monroe County data to include:
 - Number of Companies Writing/Previously Writing
 - Policies-in-Force
 - Direct Written Premium
 - Risk Concentration
- The report is due to the Legislature on March 1, 2006.

Law and Ordinance Coverage Study – Local building codes, zoning laws and ordinances are constantly changing within communities. Law and ordinance coverage offers policyholders protection in the event their home is partially or completely destroyed and must be rebuilt – this coverage provides the consumer with funds needed to bring the property up to code.

- In 2005, the law was modified to provide an option to policyholders to purchase law and ordinance coverage at 25% or 50% of the dwelling coverage for policies issued or renewed on or after October 1, 2005.
- Insurance companies have started to make their filings to comply with the 25% or 50% option
- The Office's study is due to the Legislature by January 1, 2006.
- 76 form and rate filings have been submitted to the Office

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Wind Mitigation Form – The new law requires insurers to notify applicants and policyholders of the availability and amount of premium discounts for fixtures and techniques that mitigate windstorm losses.

- The Office has scheduled a Rule Workshop to discuss the preliminary draft Wind Mitigation Form that will provide more transparency for the policyholder
- The Workshop is scheduled for Friday, September 16th
- Insurance companies would be required to submit electronically the Wind Mitigation Form presenting all available credits at the time of each annual rate filing – this will be integrated into the Office’s Internal Portal (I-File System)
- This law is applicable to policies issued or renewed after October 1, 2005

Checklist – The law requires property and casualty insurers to provide policyholders with a standard checklist of the contents of their policy. The checklist is to be written in a format with simple, readable language to assist consumers in understanding the principal benefits and coverage provided in their policy.

- Requires the Financial Services Commission to develop a checklist for a basic homeowners, mobile homeowners, dwelling, and condo unit owners policies.

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- It is required on each initial policy and each renewal thereafter
- This Checklist/Form is also scheduled to be discussed at the Rule Workshop on Friday, September 16th
- This provision becomes effective January 1, 2006

Hurricane Deductibles – Increases a consumer's option on hurricane deductibles.

- By January 1, 2006 insurers are required to offer their policyholders hurricane deductibles of \$500, 2%, 5% and 10% based on dwelling limits
- Allows commercial insurers to offer a 3% or 10% deductible for commercial residential policies – In Florida law, commercial residential policies include: condominium associations, cooperative associations, apartment buildings and similar policies, including common elements of a homeowners association
- Requires the insurer to display the actual dollar amount of the chosen deductible on the policy
- Companies are making filings and coming into compliance with the new deductible requirements - 12 companies have filed with the Office

Long-Term Solutions for Florida's Hurricane Insurance Market – the 12-member Task Force was created to conduct research and hearings on whether Florida has sufficient hurricane insurance

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capacity to ensure the continuation of a healthy, competitive marketplace, and to identify the future demands of Florida's hurricane insurance capacity.

- Organizational meeting was held on August 24th
- Next meeting – Wednesday, September 28th in Tallahassee (agenda items include Citizens and CAT Fund)
- Future Meetings are scheduled:
 - October 26, 2005 – Tallahassee
 - November 14, 2005 – Tampa
 - December 14, 2005 – Pensacola
 - January 18, 2006 - Miami

- **Current Status of Residential P&C market in Florida**
 - General Florida Marketplace Information
 - As of June 2005, there are more than 5.7 million personal and commercial residential Policies-In-Force in the state of Florida
 - Overall property exposure in Florida is more than \$1.2 Trillion dollars and there is more than \$6 Billion dollars in Direct Written Premium
 - In 2005, OIR created the Office of Business Development and Market Research (BDMR) to promote Florida's positive business climate to attract new insurers to our state. BDMR will promote the benefits of expanding or moving lines of business to Florida and facilitate the application process for established and new insurance

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companies. BDMR's primary role is to identify financially sound companies, communicate the positive aspects of the Florida marketplace, and encourage them to apply for a Certificate of Authority.

- The Ultimate Outcome: New insurers will domesticate and/or expand their lines of business in Florida
 - Bringing more capital into the state - making the market more stable
 - Provide more choices and offer a wider array of products to consumers – making premium prices more competitive
- New Companies (Since October 2004)
 - 11 New Companies Licensed to Write Homeowners/Mobile Homeowners - initial capital invested \$82.6 million
 - 4 New Companies With Active Permits to Write Homeowners/Mobile Homeowners - proposed capital of \$42.5 million
 - 5 New Companies With Pending Permits to Write Homeowners/Mobile Homeowners – proposed capital of \$74.0 million
 - 2 Existing Foreign Companies Adding the Homeowners Line of Business to their current Certificate of Authority
 - 19 New Companies; 2 Companies Adding Homeowners as a Line of Business and Total Invested/Proposed Capital = \$199.1 million

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- Company withdrawals (Since August 2004)
 - 9 Companies Withdrawn from the Homeowners/Mobile Homeowners Line of Business in Florida
 - 2 Companies Pending for Withdrawal from the Homeowners/Mobile Homeowners Line of Business in Florida
- Update on Reinsurance
 - Hurricane Katrina will have an impact on the global market for catastrophic risk coverage; however, more will be known after the annual Monte Carlo meeting for reinsurers scheduled later this week
 - Preliminary data from private modelers suggest that Florida is likely to see approximately a 10-15% increase in reinsurance costs; expect a 50% increase to Alabama's reinsurance costs; and Louisiana's reinsurance costs are unknown at this time
 - Most Florida property renewals occur in June to coincide with the CAT Fund, not in January like the majority of the marketplace