

**Presentation by Commissioner Kevin McCarty
Office of Insurance Regulation
To the
Joint Select Committee on Hurricane Insurance
Friday, January 14, 2005**

Hurricane Season 2004 Background:

- The 2004 hurricane season has been particularly destructive for Florida, effecting 1 in 5 homes in the state.
- Insured losses due to the multiple storms have been reported to the Office and are estimated to be \$21.6 billion collectively.
- According to the Insurance Information Institute, insurance claims payout from the four storms will top Hurricane Andrew's record for natural disasters – the quartet will be the second most costly catastrophe in insurance history.
- The Governor of Florida has issued four orders declaring a state of emergency due to the storms and the President of the United States has declared most of Florida a federal disaster area.

Hurricane Reporting Overview (weekly data report – Hurricane Reporting Summaries)

- To-date, insurers have reported in excess of 1.5 million property insurance claims as a result of the four hurricanes.
- Gross losses for both commercial and residential are reportedly \$21.3 billion.

Hurricane Charley:

- 456,812 claims reported representing \$8 billion in losses
- 90.2% of claims are closed averaging 35 days to close

Note: closed claim means- a claim that has been settled, claimant has received payment and no additional payments for this claim are expected to be incurred by the insurer.

Hurricane Frances:

- 518,539 claims reported representing \$5.2 billion gross losses
- 85.6% of claims are closed averaging 33 days to close

Hurricane Ivan:

- 200,702 claims reported representing \$4 billion gross losses
- 80.1% of claims are closed averaging 26 days to close

Hurricane Jeanne:

- 398,787 claims reported representing \$4.1 billion gross losses
- 83.4% claims are closed averaging 27 days to close

Limitations on Cancellations and Non-renewals for Damaged Homes:

- While the focus of today's meeting is on hurricane deductibles and the Cat Fund, I feel that it is extremely important to bring to your attention the need to limit cancellations and non-renewals for homeowners still in need of repairs.
- Because of the extreme demand for contractors, property repairs are not being completed in reasonable time frames.
- Members of the Financial Services Commission, comprised of the Governor and Cabinet, were concerned that some insurers may attempt to cancel or nonrenew insurance policies for homes that had not been completely repaired.
- Due to underwriting guidelines of other insurers, these consumers would not be able to secure replacement coverage.
- To address this problem, the Financial Services Commission passed an emergency rule prohibiting the cancellation/nonrenewing of a policyholder's personal or commercial residential property as a result of hurricane or wind damage until 60 days after the property has been repaired.
- The first rule expired on December 31, 2004, but the FSC passed another emergency rule on December 21st to extend these protections through March 31, 2005.
- The Office recommends codifying this rule into Florida law to protect citizens who may not have access to contractors for many months.

Recommendations on Hurricane Deductibles:

- During the 2004 Hurricane Season, Florida consumers have paid an estimated \$1.6 billion in residential hurricane deductibles.
- In some cases, homeowners sustaining damage from more than one storm were required to pay more than one deductible.
- The Office recommends that the hurricane deductible statute be enhanced by creating an attendant product, alongside the percentage deductible.
- This can be done through the insurer or in conjunction with a depository financial institution.
- Additional premiums would be paid into these deductible fund accounts and allowed to accumulate and add interest, instead of paying a higher premium throughout the life of the risk exposure as would occur with the flat dollar deductible.
- At some point, the deductible would be funded and only maintenance contributions might be required to maintain the appropriate amount as property values appreciated.
- If a hurricane caused significant damage prior to the deductible being fully funded, a below market interest rate "policy loan" could be added.

Recommendations to Improve the Cat Fund:

- Savings from Cat Fund reinsurance is passed on to Florida's policyholders.
- Cat Fund capacity was increased last session from \$11 to \$15 billion, adding \$4 billion of reinsurance to the marketplace.

- Over time this will allow residential property insurance to be more affordable to consumers.
- In addition, extra reinsurance capacity will allow insurers to write more business and thus be able to take out business from the residual market (Citizens).
- Many authorized insurers have indicated to the Office that they would write more homeowners policies in Florida with the passage of the enhanced Cat Fund.
- **The Office recommends five enhancements:**
 1. A lower retention (deductible) in the amount of \$4 billion for an insurer's largest two events during a contract year.
 2. Subsequent retentions (deductibles) for insurers are triggered at 1/3 of the full retention.
 3. Increase the "Rapid Cash Buildup Factor" provisions of the CAT Fund – to ensure the growth of the cash balance of the CAT Fund exceeds the growth of bonding
 4. Constitutional Protection of the CAT Fund
 5. Explore the options of creating a CAT Fund deposit account to retire the hurricane deductible – provides a tax free hurricane deductible account

Other recommendations for consideration:

- For residential properties, the 2% deductible should remain the deductible.
- It is the opinion of the Office that a mandatory offering of lower deductibles will be disruptive to the marketplace.
- For commercial residential properties, we support having an optional seasonal deductible.
- In many cases, commercial residential policyholders are the more sophisticated buyer.
- Given the current condition of the marketplace, we feel that this option should be made available.
- An offering of a seasonal deductible for personal residential policyholders would result in a relatively small amount of savings.
- Making this additional option available may also be confusing to the policyholder.