

**COMMISSION REQUEST FOR ADDITIONAL INFORMATION
2003 – Professional Team on-site audits
July 8, 2003**

Issue number 1 - Demand Surge:

Modeler Comments:

Model comparisons with Hurricane Andrew data generally fall short of the actual losses. Demand surge has been given as the reason for the Andrew shortfall. While the FCHLPM has generally accepted the ‘demand surge’ explanation for Andrew shortfalls, it is possible that the models fail to produce accurate Andrew results for other reasons as well; reasons that may be hidden by the demand surge issue. Modelers treat demand surge differently when analyzing historical data.

It was expressed that considering hurricanes Andrew and Hugo would allow the Commission to intelligently capture calculations of demand surge. The National Association of Home Builders collects this type of information, but the data for Hurricane Andrew does not appear to be available according to modelers.

Some modelers use data from Hurricane Andrew for calibration and validation of demand surge. They disagree that demand surge should be excluded from the model as the modelers are in as good a position, if not better, to estimate what demand surge is.

Models generally have a demand surge on/off button. Modelers place various levels of confidence in their demand surge calculations. If clients want a demand surge estimate, modelers generally believe their methods produce reasonable results.

Professional Team Comments:

Demand surge is a real issue, sometimes but not always due to unethical behavior. It is more an issue of low supply coupled with high demand for equipment and services, and can be expected to be present following a major event. Although demand surge is to be expected, the Commission has not yet seen a calculation that produces highly credible results. Models are expected to produce loss costs that are exclusive of demand surge. Insurers using the models in a rate filing with the Office of Insurance Regulation are aware of the exclusion and may produce their own evidence to file for loss costs that include demand surge. The Professional Team recommends that the Commission make no change in its position regarding demand surge until a more credible method of calculation is available and is accepted by the modeling sciences. The Commission may wish to initiate a study to determine the most recent data, methods and calculations that are available to estimate demand surge.

Issue number 2 – Cost of the FCHLPM Process - Modules, Standards, etc.

Modeler Comments:

Part 1 – Submission Process in General

Modelers spend weeks (or months) preparing the submission. At least one modeler has expressed the belief that this time could be better spent in improving components of the model. They believe there is an opportunity cost involved with spending time on submission preparation versus other activities.

Modelers expressed that updating the submission every year is expensive. As they have previously done, modelers requested less frequent reviews, submissions and audits which they believe would alleviate some of these concerns. The modelers believe that, especially following years with no Florida hurricane activity, an annual review may not be necessary. As they have in the past, modelers have requested a biannual review process, or a streamlined review that deals only with changes.

Commensurate with the request for less frequent reviews, modelers mentioned that changes in the forms, modules and standards from year to year are onerous.

Modelers suggested that the Commission focus on parts of standards in detail each year but not everything every year. One modeler said they desired less change so they could send in the same submission each year, or if there are changes, the modeler would like to be told where they may put last year's answers in this year's submission. A modeler also requested the Commission consider lowering the required number of hard copies of the submission.

Professional Team Comments:

The SBA is currently involved in producing simplifications to the process, including the minimization of redundancies and the elimination of parts of the submissions that are no longer used or have been superseded by other items as well as a streamlining of the Standards which has been suggested by modelers.

The FCHLPM has produced benefits to the process and has produced benefits to each of the models that must be considered when analyzing the costs associated with the submission process. Modeler costs are somewhat offset by the Florida Hurricane Catastrophe Fund's purchase of the models for rate making purposes.

Part 2 – Form F

While modelers have expressed to the Professional Team and to the Commission that they have gained information from the production of Form F, there was virtually

universal agreement from the modelers that Form F is expensive and extremely time consuming, especially when there are changes in the instructions, tracks, variables, resolution, etc.

Professional Team Comments:

Form F has given the Commission and the Professional Team a great amount of knowledge. It has provided insights as to how and to what extent the individual model components interact and where our efforts are best spent relative to the audit. It may be time to revisit the Form F process, and this was discussed at the Pro Team Workshop in Fort Lauderdale.

Part 3 – Other Items

Modelers requested that the Commission allow more detailed resolution in lieu of ZIP Code information requests for submission.

The requirement to explain output range changes of greater than 10% is onerous, and it is generally an issue of ZIP Code centroid movements.

Modelers expressed that a master matrix table of all the exhibits and forms would be helpful. This would include which storms, exposures go with which desired outputs for the Commission. There was a general desire to eliminate redundancies in the Report of Activities.

Modelers suggested that for the mitigation (range) requirements, the Commission provide a Form to be filled out so each modeler would know how we want the information provided.

Modelers requested that the standards be streamlined.

Professional Team Comments:

ZIP Code information may be required by insurer clients, so the Commission's requests for ZIP Code information may not be a great additional burden or cost. This may be pursued through the use of a potential FHCF questionnaire to modelers.

The Professional Team audits and the Commission's scrutiny are already aimed more intensely at areas that have been changed. While the audit expedites the process for unchanged parts of the model, an audit that does not specifically address all standards may miss issues where changes in one part of the model may influence (appropriately or not) other areas of the model. A necessary part of the audit is to ensure that model components are independent of each other. Revisions in the model that appear to be minimal (i.e. ZIP Code updates) may have significant impacts on some model output results. The requirement for a modeler to explain differences in the output ranges

between the current and prior submission provides the Commission and the Professional Team with an extremely powerful auditing tool, and should be continued.

The additional information required in proposed Standard V-2 (old 5.3.5) is necessary to ensure that the models are providing the information necessary for loss costs and ultimately final rates to be in compliance with Florida statutes relative to hazard mitigation. The suggestion that this information be the subject of a new Form was considered at the workshop and a new Form has been suggested.

Issue number 3 – Revisions to the HURDAT data

Modeler comments:

Modelers were unanimous that they would rather wait until all the revisions are made before the Commission's Official Storm Set is amended. Modelers question the validity of the data being used to add older storms as well as the decision to revise Hurricane Andrew characteristics. They expressed that this revision is a work in progress and not ready for inclusion in the process, and that there are issues about its (HURDAT revised data) quality, especially for cat 2 storms. There are many concerns and reservations about the conclusions from that group of storms. One modeler suggested that an independent committee review the revision committee's recommendations.

Professional Team Comments:

The Professional Team believes it would be in the Commission's interest to take the modeler's comments under serious consideration relative to the revised HURDAT issue. The Professional Team recognizes that there are pros and cons associated with the Commission's decision relative to this issue. The issue should be slated for further discussion prior to including additional historical storms in updating the Official Storm Set. It is the sentiment of the Professional Team to use the best available data in constructing the official storm set.