



Acceptability Process Committee

July 26, 2005

Agenda

- I. Welcome, Introductions, & Announcements
- II. Commission & Committee Meeting Dates
- III. 2005 Legislation Impacting the Florida Commission on Hurricane Loss Projection Methodology
- IV. Overview of the Content of the Report of Activities
- V. Basic Requirements
- VI. Role of the Professional Team
- VII. Discussion of On-Site Visits by Commission Members
- VIII. Suggested Changes to the Acceptability Process
- IX. Other Ideas
- X. Conclusions

I. Welcome, Introductions, & Announcements

- Committee Members:
 - Jack Nicholson, Chair
 - Randy Dumm
 - Steve Burgess
 - Howard Eagelfeld
- Conducting Committee Meetings
 - The public is encouraged to participate
 - The idea is to reach a consensus on changes

II. Commission & Committee Meeting Dates

- July 15, 2005 – Acceptability Process Committee (Preliminary)
- July 26, 27, & 28, 2005 – All Committee Meetings
- August 9 & 10, 2005 – Extra Meeting Dates to finish up if needed
- September 14 & 15, 2005 – Full Commission Meeting

III. 2005 Legislation Impacting the Florida Commission on Hurricane Loss Projection Methodology

- **CS for SB 1486**
- **HB 1939**

2005 Legislative Changes

- **CS for SB 1486** – changes to s. 627.0628(3)(c)
 - Adds wording: “only if the office and the consumer advocate appointed pursuant to s. 627.0613 have access to all of the assumptions and factors that were used in developing the actuarial methods, principles, standards, models, or output ranges, and are not precluded from disclosing such information in a rate proceeding.”
 - Conclusion: No impact on Commission, but qualified the findings of the Commission with regard to rate proceeding.

2005 Legislative Changes

- **HB 1939 (Section 3)** – changes to s. 627.0628(3)(e)1., 2. & 3.
- Section 4. ***Findings of the Legislature***
 - Public necessity to protect trade secrets used in designing & constructing hurricane loss models.
 - Exemption from public records and meetings requirements.
 - Goal is served by enabling the FCHLPM to have access to all aspects of hurricane loss models, and encouraging private companies to submit such models to the Commission for review without concern that trade secrets will be disclosed.

HB 1939

627.0628 Florida Commission on Hurricane Loss

Projection Methodology; public records exemption;
public meetings exemption. - -

- (3) (e)1. A **trade secret**, as defined in s. 812.081, that is used in designing and constructing a hurricane loss model and that is **provided** pursuant to this section, by a private company, **to the commission**, office, or consumer advocate appointed pursuant to s. 627.0613, is confidential and **exempt** from s. 119.07(1) and s. 24(a), Art. I of the State Constitution.

2. That portion of a meeting of the commission or of a rate proceeding on an insurer's rate filing at which a trade secret made confidential and exempt by this paragraph is discussed is exempt from s. 286.011 and s. 24(b), Art. I of the State Constitution.

3. This paragraph is subject to the Open Government Sunset Review Act of 1995 in accordance with s. 119.15, and shall stand repealed on October 2, 2010, unless reviewed and saved from repeal through reenactment by the Legislature.

CONCLUSION: The new statutory changes as a result of HB 1939 can impact the Commission's review process. The Commission should review its processes and determine what changes are needed.

Implications

- Trade Secrets are confidential and exempt from the public records law s. 119.07(1), F.S. Documents containing trade secrets can be provided to the Commission without the Commission being required to make these documents available to the public.
- Portion of a meeting where trade secrets are discussed is exempt from the public meeting law requirements (s. 286.011, F.S.) and will not be open to the public.

IV. Overview of the Content of the Report of Activities

Report of Activities

as of November 1, 20XX

- I. Introduction – Role and Mission (update p.8, 9)
- II. 12 Principles (changes to p. 12, #3)
- III. Commission Structure (changes p. 16-24)
 - Public Access – defined and limited
 - Commission Meetings to Review Modeler Submissions
 - Commission Meetings to Review Models for Compliance with Standards
- IV. Findings (changes to: Concerning Trade Secrets)
- V. Process for Determining the Acceptability of a Computer Simulation Model (Changes)
- VI. On-Site Review (?)

VII. 20XX Standards, Disclosures, and Forms

- General (committees determine requirements)
- Meteorological (committees determine requirements)
- Vulnerability (committees determine requirements)
- Actuarial (committees determine requirements)
- Statistical (committees determine requirements)
- Computer (committees determine requirements)

VIII. Future Inquiries or Investigations (various suggestions)

IX. Appendices

Standards:

- Purpose
- Disclosures
 - Public Disclosures
 - **Trade Secret Disclosures**
- Audit (Proprietary information is reviewed)
- Forms

V. Basic Requirements

- What is required of the Commission?
 - Shall [consider any actuarial methods](#), principles, standards, models, or output ranges that have the potential for improving the accuracy of or reliability of the hurricane loss projections used in residential property insurance rate filings.
 - Shall, from time to time, [adopt findings](#) as to the accuracy or reliability of particular methods, principles, standards, models, or output ranges.
 - Shall [adopt revisions](#) to previously adopted actuarial methods, principles, standards, models, or output ranges [at least annually](#).

VI. Role for the Professional Team

- Specific expertise, experience, and analysis capabilities.
- Labor intensive nature of model review requires a professional team to go on-site and carefully scrutinize all aspects of the model.
- Professional Team is needed to stay abreast of scientific developments and to propose standards and revisions to standards.
- Professional Team conducts research and proposes studies to further the mission of the Commission.

VII. Discussion of On-site Visits by Commission Members

- 1) Should Commission members go on-site to review the model?
- 2) Accompany the Professional Team.
- 3) Deadline for making request to go on-site by March 31.
 - a. Contingent upon not interfering with the Commission's schedule for model review.
 - b. Contingent upon budget considerations.
- 4) Attend on-site visits for all models.

Discussion of On-site Visits by Commission Members (con't)

- 5) Not interfere with the work of the Professional Team.
 - a. Observe, but not ask questions while the Professional Team is doing its work.
 - b. Ask questions in separate sessions with the Modeler.
- 6) Commission members should not discuss the model among themselves while on-site. Provisions of the Public Meetings law applies to non-trade secret discussions.

VIII. Suggested Changes to the Acceptability Process

- A. Documents containing “Trade Secrets” are exempt from the public records requirements.
- 1) Commission requires that the Modeler provide a “list of documents” containing trade secrets as part of the submission process.
 - 2) Such documents are to be recommended by each Committee responsible for reviewing the appropriate set of Standards (General, Meteorology, Vulnerability, Actuarial, Statistical, and Computer).
 - 3) The Non-Trade Secret portion of a submission will be referred to as **Part A** and the part of the submission containing Trade Secrets will be referred to as **Part B** of the submission.

- 4) Hard copies of Part B will not be required.
- 5) A single electronic copy of Part B will be provided to the SBA/FHCF acting as staff for the Commission.
- 6) The SBA will maintain security over documents containing trade secrets.
 - a. Commission members may only examine Part B of the submission on the SBA's premises.
 - b. Such documents containing trade secrets will at all times be accompanied by a SBA staff employee and will not be allowed to be taken off-site.
 - c. Commission members will not be allowed to duplicate documents containing trade secrets and all notes taken shall be destroyed (shredded) prior to departing the SBA.
 - d. Commission members will not be allowed to use cell phones or other electronic recording devices while reviewing documents containing trade secrets.
 - e. Only one Commission member at a time may review a specific document containing trade secrets unless a Commission meeting has been noticed and scheduled for such purpose.
 - f. Following the Commission's review of the model, Part B of the submission will be returned to the Modeler but will be required to be retained by the Modeler and will be available₂₁ to the Commission upon request for five years.

- 7) A Supplemental Submission will be made following the on-site review of the Professional Team.
- a. The Supplemental Submission will be known as **Part C**.
 - b. The Supplemental Submission will consist of the Audit Report prepared by the Professional Team.
 - c. The Supplemental Submission, Part C, is expected to contain discussions of Modeler Trade Secrets in support of the model meeting the Commission's Standards.
 - d. A non-redacted Audit Report which will be known as **Part C-NR** and will be brought back to the Commission by the SBA staff member accompanying the Professional Team on-site. It will be treated as an exempt document like Part B of the Modeler's submission. Part C-NR will be retained by the SBA which will control the security of the document as described for Part B.
 - e. The Audit Report will be left with the Modeler, who will redact any Trade Secrets. The Modeler will then submit **Part C-R** to the Commission:
 1. A redacted report, Part C-R, will be considered a public document, and provided to the Commission. A single electronic copy will be required.
 2. The time frame for submitting Part C-R will be one week following the completion of the Professional Team's on-site review.

- B. Meetings – portions of the Commission meetings where “Trade Secrets” are discussed will be exempt from public meeting requirements. As such, these parts of Commission meetings will be closed to the public.
- 1) Closed meetings for the purpose of discussing trade secrets will be scheduled prior to the Commission voting on the acceptability of a model. No voting regarding the acceptability of a model will occur in a closed meeting.
 - 2) A transcript of the closed meeting will be recorded and such transcript will be sent to the Modeler for review prior to making any portion of the transcript public. The Modeler will have the opportunity to redact from the transcript any Trade Secrets which are revealed during the closed portion of the Commission’s meeting.

- 3) The Modeler will return the redacted transcript to the SBA for the purpose of serving as a public document. The non-redacted original transcript will be considered a document exempt from public record requirements and will be retained and within the security control of the SBA at all times. The security control process will operate the same as that associated with Part B & C of the modeler's submission.
- 4) Discussions during the Commission's closed portion of a meeting will, to the extent feasible, be related to Trade Secrets only and any discussion of non-Trade Secrets will be deferred until the public portion of the Commission's meeting.
- 5) Modelers may provide additional documents or presentation materials for the closed portions of a meeting. Additionally, modelers may provide direct access to the model by electronic means during the closed portion of a meeting.
- 6) Following the closed portion of a Commission meeting dealing with Trade Secrets, the remaining portion of the meeting will be open to the public and will follow the Commission's customary voting requirements and pattern of discussion.

- 7) Participation at the closed portion of a Commission meeting may include the following:
 - a. The Modeler and anyone the Modeler designates or chooses to attend.
 - b. Commission members.
 - c. The staff of the Commission including the SBA/FHCF staff , the Professional Team members, and other staff or consultants hired for the purpose of staffing the Commission.
 - d. The SBA's court reporter.
- 8) Other than those specified in #7 above, no other members of the public may attend the closed portion of a Commission meeting nor will such persons be allowed to be within hearing distance of the room where discussions of Trade Secrets are in progress.
- 9) All cell phones and communication devices including recorders, computers, pagers, etc. belonging to the public will be removed from the meeting room where the Commission is conducting a closed meeting to discuss Trade Secrets.

- 10) Similar devices noted in #9 above belonging to participants (see #7 above) of the closed portion of the Commission's meeting will be turned off and not be accessible during the course of the meeting with the following exceptions:
 - a. Transcribing equipment needed by the Court Reporter.
 - b. Computers, communications equipment, and other electronic devices needed by the Modeler during the discussion of Trade Secrets.
 - c. Telecommunications equipment, computers, and other electronic equipment used by the SBA on behalf of the Commission for the purpose of facilitating communication among Commission members and the Modeler.
- 11) All notes taken during the closed portion of the Commission's meeting to discuss Trade Secrets will be destroyed upon completion of the closed meeting.
- 12) Due to security purposes, Commission members will not be allowed to participate by conference call or other telecommunications regarding the closed portion of a Commission meeting.

Modeler Submission

Part A – Public

Part B – **Trade Secrets** (returned to modeler)

Part C – Audit Report

Non-redacted (retained secure by SBA)

Redacted

Transcript – From Closed Meeting

Non-redacted (retained secure by SBA)

Redacted

IX. Other Ideas

- EQECAT (6/17/2005 Memo)
 - Ensure that the parts of the process requiring significant modeler effort and expense are truly providing worthwhile review aspects:
 - Remove less useful standards and forms as newer, better ones are added.
 - Minimize the amount of revisions that do not substantially increase the quality of the review process.
 - Require fewer deliveries of hard copies, CDs, and signatures, Intermediate and perhaps initial versions of the submission can be provided by e-mail for review.
 - Require submissions and reviews for only those standards or groups of standards for which there have been significant changes, either to the standards or to the model.
 - Make all or part of the process biennial.
 - At commission meetings to review models, maintain distinct schedules (if not distinct meetings) for model reviews versus other commission business and discussion.

- **Bob Ricker (7/12/2005 Memo)**
 - Two changes to increase the efficiency of the Commission's review following their adoption of revisions to Standards:
 - 1) If the Commission does not revise any Standards or makes only minor revisions to some Standards, a model would be found acceptable for an additional year upon provision of appropriate certification.
 - 2) If the Commission makes significant changes to any existing Standards and/or adopts new Standards, a model would be found acceptable for an additional year upon provision of all the following:
 - An updated Form A-8
 - Certification that the change in loss cost is less than 7% statewide (as provided in Form A-8), and less than 15% in any zip code.
 - Certification in each category (General, Meteorological, Vulnerability, Actuarial, Statistical, Computer), that there are no significant changes in their respective areas that are likely to impact any response to a Standard previously found acceptable.

- **Bob Ricker (memo continued)**
 - As part of the Standard revision process the Commission should:
 - 1) Develop and adhere to a method for Cost Benefit Analysis of any new proposed Standard or significant revision to any existing Standard.
 - 2) Determine the degree to which Standards (both existing and proposed) contribute to determining a model's acceptability for ratemaking purposes for personal residential lines of insurance in Florida.
 - Information relating to Standards or portion of Standards that do not function to determine a model's acceptability should be addressed in Planning Workshops.

- **Bob Ricker (memo continued)**

- Once these changes have been made, revise the Commission's timeline so that a determination can be made as early as February

Guidelines for Commission review to consider:

- 1) Commissioners should have a minimum of one week per model to review model submissions before meeting to discuss and determine on-site reviews
- 2) Commissioners should have a minimum of one week per model to review model submissions after receiving Pro Team reports before meeting to discuss and vote on acceptability.

- **RMS - Kyle Beatty letter 7/20/05 (SUMMARY)**
 - Commission for 2005-2006 confine review to:
 - Proprietary information in Professional Team Report
 - Closed door discussion with Professional Team
 - One or more Commission members observe Professional Team's on-site audit.
 - Cost Benefit Analysis (supports Bob Ricker's approach)
 - New standards, cost benefit from standpoint of Commission and Modelers
 - Non-trivial changes to Standards developed in June-September meetings
 - Modelers submit confidential cost benefits estimates as part of submission for implementation the following year and allow Professional Team to ask questions and clarify while on-site.
 - Weigh cost benefit and those changes with small cost implement in the November Report of Activities, those with large cost allow an additional 1-2 years.

X. Conclusions