



September 25, 2009

Dr. Randy Dumm, Chair  
Florida Commission on Hurricane Loss Projection Methodology  
c/o Donna Sirmons  
Florida State Board of Administration  
1801 Hermitage Blvd., Suite 100  
Tallahassee, FL 32308

RE: Model Review Cycle Changes

Dear Chairman Dumm:

The recent decision by the Commission to implement the changes to Florida Statute 627.0628(3)(e), which directs the Commission to adopt revisions "every odd year", by changing the calendar of model reviews in 2010 and 2011 has certain impacts on modeling firms, the insurance marketplace, and regulatory activities in Florida. We are writing to make the Commission aware of the impacts and to request guidance on a proposed model review option.

In brief, the decision to forego a Spring 2010 review cycle and request submissions by November 15, 2010 for a next review opportunity in Spring 2011 will result in a significant time window during which the AIR U.S. Hurricane model version 12, due for release in Spring 2010, will be in use in the global insurance market but not yet reviewed by the Commission. As you know, AIR has worked closely with the Commission over the years. In line with our mission to provide state-of-the-art science in our models, and consistent with Commission objectives, AIR has made an enormous resource commitment to version 12, with the goal of releasing an updated and greatly enhanced model next Spring. Many enhancements have already been discussed with the Commission in workshops. This version may significantly impact certain output ranges and other statistics regularly reviewed by the Pro Team and Commission.

We expect that the Commission does not want to be disconnected from the latest model outputs being used and discussed in the markets for any significant length of time – a result directly at odds with its core statutory mission. We further expect that the Florida Office of Insurance Regulation may appreciate avoiding the filing review difficulties that may ensue when insurers upgrade to version 12 but are informed of the need to use a legacy version of the model – the currently accepted version 11.0 – when filing rates. Finally, we expect that insurers will appreciate avoidance of the problem of installing and maintaining two separate model versions at once so that the legacy version can be used for Florida-specific filings and analysis.

Notwithstanding our appreciation of the additional time allowed for the 2010 submission of the model, we plan to be ready to submit version 12 to the Commission for review in accordance with the previous cycle – namely, a submission date of February 28, 2010. As a remedy for the situation discussed above, we request your guidance

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regarding the Commission's ability to review a model earlier in the proposed cycle if submitted by February 28, 2010. An earlier review, if leading to earlier acceptance, would alleviate the problems discussed above.

It is reasonable to ask whether AIR would then submit an additional version for review in November 2010. We have no plans to repeat the model development cycle twice in one year, and further we expect that version 13 slated for release in Spring 2011 would not represent a major update containing the type of scientific and engineering changes already completed for version 12. The beneficial impact of these plans to the Commission is that, particularly if other modeling firms plan to wait until on or around the November 15, 2010 submission date, an early submission by AIR would offer the Commission the opportunity to review and hopefully accept the AIR model earlier in the cycle, staggering the workload of the Commission and Pro Team and relieving pressure during the "crunch time" of early 2011.

We look forward to your consideration of these facts and your response regarding the possibilities of a flexible review cycle in 2010. Please contact me with any questions or comments.

Regards,

A handwritten signature in black ink, appearing to read "David Lalonde". The signature is fluid and cursive, with the first name "David" being larger and more prominent than the last name "Lalonde".

David A. Lalonde  
Senior Vice President