

Business Position Paper

Presented to

The Florida Commission on Hurricane Loss Projection Methodology

Presented by



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PROPOSAL AND PROJECT PLAN

INTRODUCTION

This position paper is provided to the Florida Commission on Hurricane Loss Projection Methodology (“FCHLPM”) in response to recent developments brought to light through the monthly board meetings of the FCHLPM committee and also in discussion with MSB insurance clients doing business in Florida.

Who is MSB: MSB is the leading provider of building cost data, estimating software and property appraisal work to the insurance and banking industry in the U.S. As such MSB provides estimating systems and data used by underwriting, claims, real estate appraisers, tax assessors and cost-to-cure (REO) providers across multiple industries. MSB is also written into law in 38 states for tax valuation work, is the sole source for remediation in HUD and FHA, and is the format for the cost approach prescribed by Fannie Mae and Freddie Mac. MSBN data and systems are also the exclusive valuation methodology of government owned properties in state and federal government programs.

The State of Florida and the Citizens Property Insurance Corporation are all clients of MSB today. As such, MSB felt the need to provide to this commission an opinion on the current plan to review Mitigation/Insurance To Value (ITV) for residential construction in the State, as well as re-appraisals to determine whether properties comply with earlier building code updates that qualify for property insurance tax discounts and credits.

MSB Proposal: Because MSB is so ingrained in property solutions for the insurance and other industries, MSB would like the Commission to consider a more encompassing solution for updating property records in the State for both insurance to value as well as proof of compliance with code changes. MSB is better positioned than anyone to provide an independent, third party evaluation of the level of exposure and remediation, and then establish up-to-date values on all properties surveyed. MSB estimating systems are today the ones the State relies on for its own insurance programs. These same programs would be used to update coverage limits. At the same time, MSB has the resources and people to do any and all functions of the process, including:

- **Field inspections of any home for code compliance updates.**
- **Field and phone surveys to collect salient inside and outside information on every home, then MSB uses its own systems to calculate current replacement cost values for you.**
- **Full data archiving, storage and retrieval of all information collected through use of MSB EXPRESS web-hosting (the same systems over 300 major insurance companies use today to archive their property data).**
- **Photos of every property.**
- **Appropriate reporting and documentation for State auditing and review.**
- **Timely completion of major property valuation and inspection projects of any size or complexity.**
- **Cost effective results since only MSB handles these major undertakings successfully.**
- **Similar program for commercial Buildings, Contents and Business Interruption (no one else has this).**

Comprehensive Program: In similar programs that have gone before the commission in the past, focus has been limited to only one area of the inspection concern. “My Safe Home Florida,” for example, centered on mitigation identification, and the associated costs. Re-valuation projects by Citizens have focused on the valuation concerns for residential and/or commercial structures. However, MSB proposes the most comprehensive approach by the only vendor with all the parts . . . MSB. When done completely, all of the necessary information needed to develop a complete profile of each and every building in Florida can be done and at a reasonable cost based on volume discounts and the power of a sole source provider.

As we look at the property valuation concerns in Florida there are many different yet similar areas that need to be addressed to help solve the shortage in the CAT fund, the ability to establish actuarial sound rates by both Citizens and the Insurance companies in Florida, control the claims costs in the wake of a storm and the ability to help control the foreclosure dilemma which is a big part of the market today. Understand the construction of



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the home or commercial building and its individual characteristics will enable the state and the companies that do business in the state to be better prepared to insure, sell, renovate, and protect the citizens of Florida.

MSB has for over 75 years successfully help our clients develop and maintain their books of business through proven valuation tools and the services that apply direct to consumer approaches incorporating Mail, Web, Telephone, Physical Inspections, third party data and Aerial Photography to gather building characteristic information. All of this data is then archived and maintained on a continuous basis to continue to provide the adequate level of coverage for each and every home or commercial building.

Other immediate needs addressed:

- **A need to establish a *consistent process* for all of the different types of residential and commercial buildings covered in Florida.**
- **Establish a *standard process* for ordering, monitoring, evaluating, estimating, archiving, and managing the Inspection business.**
- **An ability to *Archive "all"* of the building characteristic, photo's sketches and underwriting information for every risk in a single database.**
- **The need to *establish a working relationship* with proven providers that can meet the requirements as they are laid out by the commission.**
- **The ability to plug in or access *additional underwriting resources* (credit, CLUE, etc.) and services within the same process.**
- **A front end evaluation program that will evaluate every piece of business in a consistent and efficient process from agent to underwriter to inspection to final policy.**
- **The ability to accept and work with services or solutions for updating and maintaining the existing business going forward.**
- **Aligned claims estimating technology in the event losses occur.**

Proven Results: When MSB first started updating books of business the average company's book of business was 73% undervalued and by an average of 35%. Today, the undervaluation issue has improved dramatically and now the average company book is 64% undervalued and by less than 19%. The industry saved nearly \$8B USD as a result, which savings were shared with homeowners.

The companies that MSB works with today have invested in the Improvement of the ITV within their book of business and are mining this information to improve rates, identify new markets, improve their process, and help to control their expenses.

The MSB successful and proven processes can be implemented in Florida to gather the information about the homes and commercial buildings so that as companies write business in Florida or as they renew their existing business they will be better positioned to offer the insured's in Florida the right level of insurance to meet their needs.

Understanding the characteristics of a home or commercial building will provide the ability to establish all of the pieces which Florida insured's need addressed:

- **Development of Reliable Replacement Cost Values for Accurate Coverage**
- **Ability to more reliably apply PML projections using actual home construction characteristic (Frame versus Masonry, 1 story versus 2 story, etc**
- **Understand Mitigation needs and potential cost of improvements using independent valuation tools accepted by contractors.**
- **Ability to establish more actuarial sound rates**
- **Understand impact of changes/trends in markets**



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How to get started MSB already has researched the property characteristics for significant numbers of properties in each state and can begin immediately updating home coverage limits. Aerial photography we supply uniquely will also be applied to each record for a close up photo log of each property. New replacement cost values are ready to be calculated from there.

Those properties that aren't in the database, as well as commercial properties buildings and contents can be addressed through MSB phone center work and field inspections. Because we can pre-fill so much data, the cost of exterior surveys is minimized.

MSB employs rigorous data analysis and scoring methods to transform raw source data into Insurance Ready data by determining the accuracy and reliability of the home characteristic data and its conformity to the valuation method. All data is immediately archived for the State using our advanced web-hosting so it is easily retrieved for future updates. Advanced report writing capability allows the State to perform detailed Analytics on the business archived.

For more information, please feel free to give me a call.

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ADDENDUM

Other Important News

- **U.S. Department of Housing & Urban Development (HUD) / FHA** agreed to round 2 of our 3 round initiatives to implement MSB as their sole source data provider for cost-to-cure on HUD / FHA mortgaged properties. In the U.S., there is literally half the home mortgage market put through HUD so there will be lots of work and system sales. The downstream contractor market will need the same systems. This is a DECISIVE claims system sale that we can make noise about in the insurance industry because of the magnitude.
- **Major Midwest Companies** joins the defectors from competitors coming to MSB over the past 18 months. 7 out of the top 10 homeowners' carrier implement MSB.
- **MSB responded to the first RFP program for Royal Bank of Scotland.**
- Chris Dodd and the Congress have crafted 4 new regulatory bills for better management of the mortgage lending industry. We have introduced language favorable to **restoring the cost approach** in all 4.
- **A Midwest Carrier has** reviewed a data argument from MSB that demonstrate switching to any other claims estimating system will cause a 5% increase in the cost of settling claims already settled today at MSB rates. New studies have been done by sources in the industry which independently introduce this problem to property writers and bolster the success of MSB "total component" cost information. Allstate was taking this very seriously as they should.
- SIGHTLINE business is expected to positively **carry in \$12M for 2010.**
- **Negative carry-in challenges** on the sales side are expected to net **under \$500K** for the MSB business, which is quite helpful in the new-year.