

**Windstorm Mitigation Committee Members Preliminary Comments
Related to the 12/24/09 Draft of the Windstorm Mitigation Discounts Report
January 13, 2010**

Kristen Bessette

- 1) I think that one of the issues with the whole system is the complexity of the current discounts. This is likely contributing to the error rate in the inspections, but we don't really touch on it on page 3. I think one of the goals should be to have as simple a process as possible. That would make it more transparent to the homeowner, and easier for the new inspection entity and the insurance companies to administer. The more granular we get, the more difficult it will be to develop appropriate discounts and the more difficult it will be to determine who qualifies. At some point, there is a trade-off between the benefit of additional detail and the cost (both in dollars and data quality).
- 2) Any new inspection entity will take a while to be established and to get to the point where things are running as we envision. Should we point out the need for a transition plan in the meantime?
- 3) On page 5, I don't think the funding mechanism is clear. I still think bullet (2d) could be interpreted to mean that the insurance companies could not include the cost of this program in their rates. I know that is not the intent, but I think we need to be more clear that the cost would be included in the general expenses in future rate filings. We might also want to recommend more funding for fraud investigation in bullet (2i).
- 4) I don't think we need bullet 4d at all. I'm not sure it's always true, and I don't think it fits with the rest of the material. The need for offsets is really determined by how things are implemented into the rates, not by the modeling of the loss costs. I don't think we should make a comment that is that specific.
- 5) On page 8, item 3 - I think this sentence is why we have a problem now. I think that the goal of the mitigation program is to reduce losses. If losses are reduced, then premiums will be reduced. If we start off with the goal of simply reducing premiums, homes don't get hardened, etc. I would like to see this reworded. I would also change bullet two and just end it with "windstorms". I think the two together then make a powerful statement on both the public safety and insurance side.

Scott Wallace

The Commission has done extensive work on this project. So much so, that I think it is appropriate to concentrate on an Executive Summary that highlights key thoughts in a manner that minimizes potential confusion. Several points that come to mind that should be highlighted in a more focused Executive Summary are as follows:

- The FHCF should be required to fully recognize mitigation efforts in its rate making process.
- Companies should continue the re-inspection projects they have undertaken in order to obtain more accurate data on the residential properties they insure.
- Companies should be required to share the data with the state through an information clearinghouse or database so that future research can be done as to the accuracy of the current mitigation credits.
- Wind mitigation discounts should be based on hurricane computer simulation models found acceptable by the Commission and once reviewed and approved should be the basis for the credits.

- If changes are made to wind mitigation credits while Citizens is still implementing actuarially sound rates according to the statutory glide-path, such changes should be considered separately.

Hugh Willoughby

1. (p. 2, 2nd sentence in 2nd ¶) How is it possible that nearly half of Florida insurers posted underwriting losses in the second quarter of 2009? Losses relative to modeled or expected claims? Losses because of cost of reinsurance? Without some explanation this statement looks like a misleading factoid.
2. (p. 2, numbered list in the middle of the page) Are not items 2) and 6) redundant, or could they not, at least, be combined?
3. (p. 3, 1st partial ¶, 8th line) Recommend changing “could” to “should”. (lines 10 & 11) Recommend striking “knowing that they can ... activities and practices.”
4. (p. 4, 4 lines down under heading 2.) Recommend striking “inspection” after “independent.” Here we first encounter an issue that may become contentious. Will the Independent Inspection Organization (IIO) hire or contract all inspectors? I think that it would be more acceptable for the inspectors to remain as private individuals or companies who are certified, scheduled, and paid through the IIO.
5. (p. 5, line 2) “who” instead of “that.” (next-to-last and last line) Move “need to be utilized” to the end of the sentence.
6. (p. 6, item d.) Strike “purposes” at the end. (Item 4.) Computer models vary greatly in the sophistication of their representations of buildings. Some use empirical vulnerability curves based only upon loss experience; others model failure of individual components stochastically to generate fragility curves for performance of buildings as integrated systems. The latter approach, combined with full-scale testing of both components and buildings as a whole, offers real promise for establishing the value of mitigation measures.
7. (p. 7, item h, as revised) Are not 1) and 3) redundant here?
8. (p. 9, items 9) and 14) near the top) Change “Less” to “Fewer.” (middle) Starting with “To recover from...” the remainder of the material through the end of the page seems redundant. At nine pages the executive summary may seem to need its own recapitulation, but perhaps shortening it would be preferable to keeping this material.
9. (p. 12, end of first partial ¶) The Klotzbach and Gray prediction has essentially no information content because the course of the 2010 hurricane season will depend entirely upon whether the 2009 El Niño continues past the late spring “predictability barrier.” At this stage nobody can predict ENSO beyond May-June.
10. (P. 15 near bottom) As in comment 2, items 2) and 6) appear redundant.
11. (p. 23) I find the discussion of reinsurance helpful, but it seems to me that it is very expensive relative to the actual risk. Again, is the cost of reinsurance what’s causing the “rate inadequacy”?
12. (p. 26, 2nd ¶, line 5) Recommend inserting “insured” after “Andrew’s”.

13. (Sections I - V) I find these summaries extremely helpful. They are reasonably readable for non-insurance people and present excellent summaries of the history and issues.
14. (p. 30, 1st partial ¶, line 8) It might be better to replace "false or undeserved" mitigation discounts with "optimistic." (lines 10 & 11) We should keep in mind that evacuation is primarily a strategy to keep people from drowning in storm surge. The one exception is manufactured housing. Occupants almost always survive, even when the wind breaches multiple openings and the roof fails. Rappaport (2000) showed that most (> 80% of) hurricane deaths result from drowning with only about 15% attributable to straight-line winds and tornados combined. The numbers shift more strongly to drowning if we include Katrina and other post 2000 disasters.
15. (p 32, top) I have a problem with this whole business of offsets. It seems to me that policy holders who already live in hurricane resistant homes have a history of being overcharged. One of the insurance company folks who testified even advocated excluding "legacy" mitigation measures. The idea that runs through this report of inspecting all homes and modeling their vulnerability without invoking "relativities" is the right way to go.
16. (p 33, generally) Do we want to recommend that the goals be prioritized? I think not, but we probably want to make a definite decision whether to prioritize or not. Another general recommendation---we probably want to choose different words besides "re-engineer" here and subsequently. I'll make some specific recommendations later on.
17. (page 34, middle). Replace the sentence that begins "For policyholders to...." with "Policyholders who obtain windstorm mitigation discounts are required to have their homes inspected. (next ¶, 3rd line) Strike "types of" (4th line) Change while to "but."
18. (Page 35) Heading that reads "Recommendation—Re-engineering", change to "Recommendation—Reforming". We might want to use these words in other places.
19. (p. 36) As before, I think that the inspectors should remain as outside contractors who are scheduled and paid through the IIO. It might also be a good idea to leave the door open to allow policyholders or insurance companies to arrange inspections on their own, provided that the IIO can maintain quality control.
20. (p. 38, 3rd ¶) Same issue as above. We need to clarify the business model for the inspectors.
21. (p. 43, 2nd ¶) Again, wind accounts for only a small fraction of deaths. Apart from manufactured housing, NHC does not recommend evacuation from wind.
22. (p. 52, 3rd ¶, 3rd line) revise to read "...does (or fails to do) something...".
23. (pp 55 & 56) It seems to me that headings 2. Residential Structure Inspection Process and 3. Data Quality are closely parallel and have some repetition. We may want to edit them a bit.
24. (p. 59, 2nd ¶, line 6) Change "a system that fails to" to "failure to". (line 2 above) Remove hyphens from "out-of-control".
25. (p. 61) Change "Less" to "Fewer" in items 9) and 14).