



Oct 30, 2012

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Chair, Florida Commission on Hurricane Loss Projection Methodology
State Board of Administration
1801 Hermitage Boulevard, Suite 100
Tallahassee, FL 32308

Re: Notification of RMS RiskLink 11.0.SP2 Submission Revisions

Dear Chair:

In accordance with the procedures outlined in Section VI: E. “*Discovery of Errors and/or Changes to a Model after Model has been Determined to be Acceptable to Commission*” on page 53 of the 2011 Report of Activities, RMS wishes to notify the Commission of an error in the RMS North Atlantic Hurricane Model, RiskLink 11.0.SP2 submission.

Nature of Error

In preparing for the new submission under the 2011 Report of Activities, RMS identified an issue with the annual deductible factors used in completing the RiskLink 11.0 SP2 submission.

The RiskLink 11.0.SP2 software shipped to clients is not affected by this error. A supporting spreadsheet providing factors to adjust occurrence model output to an annualized gross deductible basis is being revised. This spreadsheet provides factors by ZIP Code to convert occurrence deductible AALs to annual deductible AALs. In this spreadsheet, 139 postal codes had incorrect factors. These 139 ZIP Codes are either retired area ZIP Codes or point-level postal codes.

Impact on Version 11.0.SP2 Submission Document

The revised factors affect some forms in the version 11.0.SP2 submission. Of the 139 affected postal codes, 35 were used in the submission under 2009 standards. RMS has reviewed the entire submission document and found that changes to the output ranges (Form A-6 in the 2009 ROA) and Personal Residential Loss Costs (Form A-1 in the 2009 ROA) are required. Our review did not find any other changes that need to be made.

Included with this letter are two files, one for Form A-1 and one for Form A-6. Each contains: (1) a corrected version of the form, (2) the original form, and (3) quantification of the change. As you can see, the differences are quite small, with the maximum change in loss costs being \$0.000 019/(\$1 exposure) in Form A-1 and \$0.001/(\$1000 exposure) in Form A-6.

Why the Error Occurred

During the form generation process for RiskLink 11.0.SP2, annual deductible factors used to adjust occurrence deductible gross expected losses to annual deductible gross expected losses were generated. These factors were developed using a methodology that uses occurrence losses from the RiskLink model as its input. The methodology remains

sound. However, the occurrence losses used as input to the calculation of the factors for the affected postal codes were incorrect.

This was due to a user error during the creation of the factors. Specifically, and only for the affected ZIP Codes, the series of model analyses that produced the input data for the annual deductible factor methodology were inadvertently based on a vulnerability database used for internal model testing rather than the 11.0.SP2 version. This set up is not what clients have access to, nor is it used when running RiskLink 11.0.SP2 analyses, but was a custom setup not available to clients.

Actions Taken

This problem is isolated to this specific circumstance. Subsequent to the discovery of this problem, RMS has taken the following actions:

- Corrected the spreadsheet referenced above
- Quantified the impact on the currently accepted submission (see enclosures), and produced updated pages to reflect the small changes
- Reviewed and modified QA process for annual deductible factor calculation
- Next month RMS will be communicating this issue to our client base, and releasing updated (corrected) factors to our clients

Impact on Submission due Nov 1, 2012

This issue was discovered during preparation of a new submission under the 2011 Report of Activities. RMS has confirmed that this issue only affects the previous accepted model and does not affect the submission to be delivered on Nov 1, 2012. We have also determined that because the changes are so small, any changes to the forms in the previous submission will not affect any reported values or relative value changes (i.e., maps in G1.5 or Form A-5) reported in the new submission.

Due to the very recent discovery of the error, RMS was unable to resolve this issue with the Commission prior to the November 1, 2012 submission. However, while recognizing that the final decision on required actions and decision belongs with the Commission, RMS is confident that the error will be found to be de minimis.

RMS will revise the previous submission document and will provide additional information as requested by the Commission during the on-site audit or at another mutually agreed-upon time.

Sincerely,



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Enclosures (2): RMS09FormA6_20121030.xlsx, RMS09FormA1_20121030