



Transition to New Software Platform

**PRESENTATION TO THE FLORIDA COMMISSION
ON HURRICANE LOSS PROJECTION METHODOLOGY**



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AIR Released its New Software Platform to Clients in 2013

- AIR has already released Touchstone to clients beginning January 2013
- Touchstone consolidates the functionality of AIR's existing products into a single, user-friendly software solution with significant reduction in analysis run-times, and also facilitates enhanced analytics on exposure data and model results
- Touchstone is a new software platform but contains AIR's existing Atlantic Tropical Cyclone Model v14.0.1 which the Commission is currently in the process of reviewing
- Clients who have already adopted Touchstone are waiting for its review by the Commission



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There Are Several Business Issues to Consider

- While the Professional Team was onsite in early January, we gave them a demonstration of our new software
- We also discussed several regulatory and business issues attending its release
 1. Certification of AIR's current model in new software platform
 - a. Touchstone contains the same AIR Atlantic Tropical Cyclone Model as does CLASIC/2 (and the losses are the same as in CLASIC/2), however the software platform is completely different.
 - b. What is the best procedure for the Commission's review of the new software?
 2. Timeline for certification
 - a) Some clients writing business in Florida have begun installing and testing Touchstone in 2013 and are already asking for a potential timeline for FCHLPM certification
 - b) Other clients are still working out the details of their transition and may not adopt the new software until next year
 - c) When should the Commission review Touchstone?
 3. Transition from CLASIC/2 to Touchstone
 - a. The prevailing interpretation of 627.0628(3)(d), F.S. will not allow insurers adequate time to transition from CLASIC/2 to Touchstone
 - b. Can the Commission, OIR and modeling firms work together to allow clients adequate time to transition?



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What is the Best Procedure for the Commission's Review of New Software?

- The Report of Activities (ROA) does not directly address the procedure for a substantial update to a modeler's software platform without corresponding substantial changes to the hurricane model, loss costs or probable maximum losses
- If Touchstone is seen as a significant model revision, it will fall under *Section II.C.* of the ROA
- *Section II. C., Revisions to the Standards or the Model – Significant* states that the Commission will review the revised model and software only after the next April 1 or November 1 notification date
- Assuming we submit Touchstone for review in 2014, clients currently using Touchstone will have to maintain two systems for 18 – 24 months: one for Florida and one for the rest of the world
- AIR's implementation of its existing models in the new software platform means Florida loss cost changes for the first release are very small



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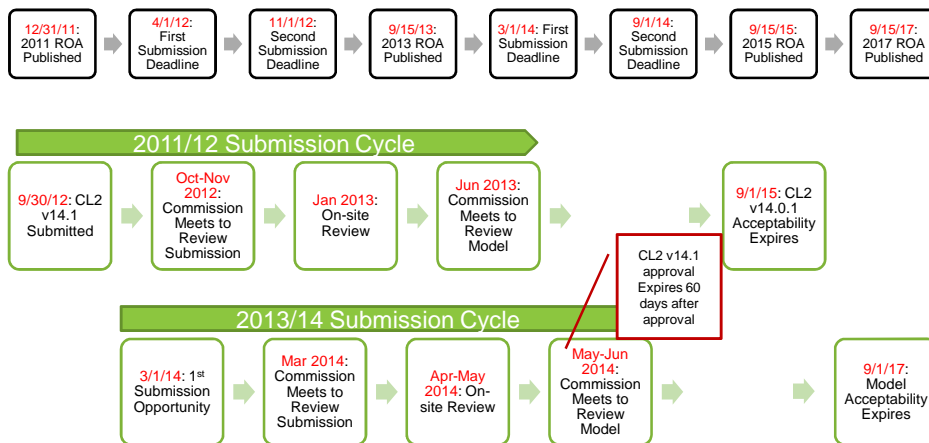
Review of New Software Platform Under Section II.C – Impact to Clients

- Currently clients are in the beginning stages of transitioning to Touchstone
- Many clients will move this year, and many will take longer
- Transition to a new software platform takes time
 - Purchase of new computer hardware – done before installation but often depends on budgets set the previous year
 - Training analysts to use – one to several months
 - Testing of the system – six to twelve months
 - Preparing Florida rate filing – one to several months
- Review of Touchstone under Section II.C., supposing we submit in spring 2014, means that all insurers will be forced to transition before the 60-day expiration of CLASIC/2



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Illustration of FCHLPM Cycle Through Two Submissions



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Review of New Software Platform Under Section II.C – Impact to Clients (cont.)

- Insurers should be able to set their business plans for adopting the new software platform
 - Clients ready to use Touchstone this year in Florida rate filings should be able to access the advancements in catastrophe modeling that Touchstone offers, not wait another year to do so
 - Clients not transitioned to Touchstone by the time CLASIC/2 v14.1's acceptability expires (60 days after Touchstone is certified) will be severely impacted and their statutory filing requirements could be jeopardized



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The New Software Platform Could Be Handled Under Non-Significant Revisions Provision

- *Section III. G., Interim Software Updates* states that the Commission will review the revised model and software after notification by the modeler, provided the changes in Florida loss costs are non-significant
- Though we have implemented the same AIR Atlantic Tropical Cyclone Model v14.0.1 in Touchstone as is currently under review by the Commission in CLASIC/2 v14.1, there may be small changes in loss costs due to a completely new software platform and architecture
- Under the *Section III.G.* provision of the ROA, the Commission's working definition of "non-significant" has been that loss costs (output range, Form A-8 and S-5) show no change from one interim software release to the next
- AIR's new software platform could be handled under this provision if the Pro Team could verify model equivalence and software standards, and if the Commission provisionally relax the non-significance standard



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Approval of Touchstone Under Section III.G Also Requires Recognition of Equivalence

Florida Insurance Statute s. 627.0628(3)(d)

With respect to a rate filing under s. 627.062, an insurer shall employ and may not modify or adjust actuarial methods, principles, standards, models, or output ranges found by the commission to be accurate or reliable in determining hurricane loss factors for use in a rate filing under s. 627.062. An insurer shall employ and may not modify or adjust models found by the commission to be accurate or reliable in determining probable maximum loss levels pursuant to paragraph (b) with respect to a rate filing under s. 627.062 made more than 60 days after the commission has made such findings.

The issue: Can more than one model be considered acceptable in a Florida rate filing? Take for example CL2 v12.0.4, CL2 v12.5 and CL2 v13. All three models produce the same losses in Florida.

Interpretation #1: There can only be one acceptable model, with the exception of the 60-day statutory grace period after a new model is accepted. Therefore 60 days after CL2 v13 was found acceptable under the Standards, CL2 v12.5 could no longer be used for Florida rate filings.

Interpretation #2: There can be interim software releases which meet specific criteria and Commission Standards and are considered functionally equivalent.



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Can the Commission, OIR and Modeling Firms Work Together To Allow Adequate Time To Transition?

- We ask that the Commission and the OIR provide input on the issue – what are your main considerations
- Ultimately the goal of all parties is to have accurate and reliable catastrophe models in the market
- Next generation software platform represents a significant improvement in the methods used to set rates in Florida
- Can we handle the 60-day transition requirement by allowing the new software platform to be reviewed under Section III.G in 2013, thereby allowing insurers adequate time to transition from CLASIC/2 to Touchstone in 2013 and 2014?



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