

Discussion Flood Standards

Introduction

In 2014, the Florida Legislature passed CS/CS/CS/SB 542 that expanded the role for the Florida Commission on Hurricane Loss Projection Methodology (Commission). Section 627.715, Florida Statutes (F.S.), was created to allow for authorized insurers in Florida to write flood insurance and two other existing statutes were amended including s. 627.0628, F.S., which created the Commission and s. 627.062, F.S., which deals with rate filings. The new legislation tasks the Commission with adopting “actuarial methods, principles, standards, models, or output ranges for personal lines residential flood loss no later than July 1, 2017.”

Recognizing the vast amount of work involved, the Commission held a committee meeting of its Acceptability Process Committee on September 30, 2014. At this meeting, a preliminary time line was created, and the Chair of the Commission created the “Flood Standards Development Committee (Committee).” The overall and final objective of the Committee was to recommend “Discussion Flood Standards” to the Commission for adoption by November 2015. This document represents the culmination of the Committee’s efforts and lays out a framework for further development and refinement of the flood standards.

Preparation and background

The Commission, consisting of 12 members, is administratively housed within the State Board of Administration of Florida (SBA) and is required to independently exercise its powers and duties. It is funded as a cost of administration of the Florida Hurricane Catastrophe Fund which provides for travel reimbursement, expenses, and staff support for the Commission.

In its role of providing staffing for the Commission, the SBA has historically contracted with certain experts to assist the Commission in the development of standards and the review of hurricane loss models. These experts are referred to as the “Professional Team” and have included an actuary, a statistician, a computer scientist, an engineer, and a meteorologist. The Professional Team includes both primary and backup members.

In preparation for the review of flood loss models, the SBA engaged in the process of putting together two teams: a hurricane loss model Professional Team with both primary and backup members and a flood loss model Professional Team with both primary and backup members. In total, 13 Professional Team members have been contracted with, and there is some overlap in members for hurricane loss modeling and for flood loss modeling. Two new areas of expertise were added to the Professional Team for flood loss model review – a hydrologist and a coastal engineer. The flood loss model Professional Team consists of a six member team: a statistician, a computer scientist, an actuary, a hydrologist, a meteorologist, and a coastal engineer. Primary and backup members have been designated as well.

During most of the past year, all members of the Professional Team have been engaged in the development of the Discussion Flood Standards and have participated with Commission members in monthly meetings. As staff to the Commission, the Professional Team has also met separately and helped review and draft the various versions of the Discussion Flood Standards which also include accompanying purpose statements, disclosures, on-site audit requirements, and forms.

All meeting materials of the Commission related to flood model standards development are available on the Commission's website at www.sbafla.com/methodology under the tab "Flood Standards Development." This includes agendas, documents, presentations, audio recordings, and meeting summaries. Various additional documents, studies, and references are also provided. In addition, drafts of the latest flood standards are posted to facilitate continued feedback and discussion. These drafts are expected to be updated periodically as input or feedback is provided to the Commission, noting the date of the change. Drafts of flood standards with revision dates after November 2015 will represent edits to the Discussion Flood Standards published in this document. There will be a "clean" and a "redline" version with notes or explanations accompanying any changes that cannot be clearly shown in a redline version.

What is addressed in this document

The purpose of this document is to publish the Discussion Flood Standards and definitions used specific to flood loss modeling, and to provide for various types of feedback leading up to the July 1, 2017, deadline for adopting flood standards. This document does not include an acceptability process for reviewing flood loss models. The process for reviewing flood loss models for acceptability is intended to be published with the Commission's 2017 Report of Activities (ROA) scheduled for publication in November 2017, which will be the next revision date for the hurricane standards. The ROA is expected to be one document that will address both hurricane loss modeling standards and flood loss modeling standards along with their respective acceptability review processes.

Process going forward

The process going forward will involve various types of feedback, the adoption of the initial flood standards by the July 1, 2017, statutory deadline, and the finalization of the acceptability process for flood loss model review at a later date. Since the deadline of July 1, 2017, deals with the adoption of flood standards and the Commission is required to adopt standards every odd-numbered year which applies to both hurricane loss modeling and flood loss modeling, there will be a need to coordinate, merge, and synchronize the 2017 Report of Activities (ROA) of the Commission such that there are no conflicts, ambiguities, or inconsistencies regarding what requirements relate to hurricane and what requirements relate to flood.

Once the initial flood standards are adopted by July 1, 2017, ongoing efforts will be made to revise the hurricane loss model standards and associated acceptability process by the

Commission's November 1, 2017, deadline for adopting revisions to its previously adopted standards. The Commission intends to merge the flood standards and a newly created acceptability process for flood loss model review into the existing ROA for hurricane loss modeling. It is anticipated that the 2017 ROA of the Commission will contain both hurricane standards and flood standards. These are anticipated to be located in separate sections of the ROA. It is anticipated that hurricane loss models and flood loss models will be reviewed separately and independently from one another. The model review process will be modified for flood versus hurricane as appropriate.

Various sections of the ROA will need to be common to both hurricane loss modeling and flood loss modeling. Most likely, the "Introduction," "Principles," "Commission Structure," "Findings of the Commission," "Working Definitions," "References," "Inquiries or Investigations," and "Appendix" can be common to both hurricane loss modeling and flood loss modeling (with relevant exceptions noted where necessary).

Sections of the ROA that will likely need to be different based on the type of model may include "Process for Determining the Acceptability of a Computer Simulation Model" (a major difference being that hurricane loss models and flood loss models will have separate timelines for model submission, on-site review, and Commission review), "On-Site Review" (differences in what the Professional Team will review), and "Standards, Disclosures, Audit, and Forms" (although common as to how the sections are structured, each will be specific to the peril being modeled). These are preliminary observations and may be useful in helping Commission members, modelers, regulators, insurers, and other interested parties to monitor and to provide input as the flood standards continue to be revised and evolve.

It is anticipated that the section entitled, "Process for Determining the Acceptability of a Flood Computer Simulation Model," will involve a specific and different timeline for flood loss model submission and review. It would not be practicable to merge on-site reviews for hurricane loss models and flood loss models since the modeling organizations will have different experts involved in developing the respective models and the Commission will have different Professional Team members involved in the review process. This also recognizes that modeling organizations may only submit a hurricane loss model or a flood loss model and not both.

Continuing Input and Feedback: The time frame between now and July 1, 2017

The time frame between now and July 1, 2017, will be used for input and feedback. It is expected that further refinement will be necessary as the Commission learns more about flood loss modeling and as the various flood loss models continue to be developed. Four types of feedback/input are anticipated.

- 1) **On-site Modeling Organization Feedback:** The Commission will entertain a limited number of on-site visits for modeling organization feedback purposes. The modeling organization shall send a letter to the Chair of the Commission requesting an on-site visit of

the Professional Team for the purpose of providing feedback regarding the Discussion Flood Standards and/or to further educate the Professional Team regarding the operations and nuances of its flood loss model in relation to the Discussion Flood Standards. The modeling organization shall suggest a date and time frame, including the length of time it feels is appropriate for the visit. These visits will not be characterized as on-site reviews and no submission or other information will need to be provided to the Commission other than the letter requesting the on-site feedback visit. The time period for a modeling organization to request an on-site feedback visit with the Professional Team shall be between December 2015 and March 2017. Thirty days' notice or longer is preferred since coordination with Professional Team members is necessary. All communications shall be addressed to the Chair of the Commission through SBA staff (Donna Sirmons).

The Professional Team will not provide suggestions on how to model flood nor how the flood loss model may need to be changed in order to meet the proposed Discussion Flood Standards. The Professional Team will discuss and react to suggestions for revising, modifying, deleting, or adding standards, disclosures, audit requirements, or forms. After each visit, the Professional Team will create a report for the purpose of making suggested revisions to the Discussion Flood Standards for the Commission's review. Depending on the nature of the feedback, the Chair of the Commission may assign a respective Committee or Committees to meet and engage in further discussions. It is anticipated that the work product of the various Committees will result in revisions to the Discussion Flood Standards in preparation for meeting the July 1, 2017, deadline for final adoption.

Commission members may attend on-site feedback visits, but due to the Florida "Sunshine Law," will not be able to participate in discussions between the Professional Team and the modeling organization. Commission members may only observe deliberations with the Professional Team and may meet separately with modeling organization personnel one on one in the absence of other Commission members or Professional Team members since participation with more than one Commission member would be considered a violation of the Sunshine Law. The same requirements specified in the Commission's 2015 ROA for Commission members attending an on-site visit will also apply to an on-site modeling organization feedback session related to flood loss modeling.

2) **Committee Meetings:**

- a) Closed session modeling organization feedback dealing solely with proprietary information or trade secrets used in the design and construction of a flood loss model – such meetings shall be conducted as required for hurricane loss model closed session meetings and as specified in the Commission's 2015 ROA.
- b) Open or public session modeling organization feedback that does not deal with proprietary information or trade secrets used in the design and construction of a flood loss model –

such meetings shall be conducted as any other public meeting, meet all public meeting requirements, and as specified in the Commission's 2015 ROA.

- 3) **Commission Member or Professional Team Member Feedback/Input:** At times other than Commission meetings or Committee meetings, Commission members and Professional Team members should attempt to follow the same requirements for outside party input which is specified on the Commission's website at www.sbafla.com/method/portals/methodology/FloodOutside/RequirementsOutsidePartyInput.pdf

There may be some instances where the ten business day time frame for providing input prior to a meeting may not be feasible for a Commission member or Professional Team member. In those instances, an attempt should be made to provide input as soon as practicable prior to an upcoming Commission or Committee meeting where the input is intended to be discussed. The format of including a Problem Statement, Explanation, and Amendatory/Suggested Language is beneficial for Commission member discussion and helps to avoid misunderstanding, thus focusing on the issue and saving time.

- 4) **Outside Party Feedback/Input:** Input from outside parties can be beneficial for the Commission's consideration. Requirements for outside party input to the flood standards development are provided on the Commission's website and should be closely followed in order for the Commission to properly consider the input for incorporating into the flood standards if deemed appropriate by the Commission. Specific requirements are available on the Commission's website at: www.sbafla.com/method/portals/methodology/FloodOutside/RequirementsOutsidePartyInput.pdf.