Florida Hurricane Catastrophe Fund

Advisory Council Meeting

May 17, 2018

Introductory Comments

1. Meeting called to order & opening comments – *David Walker, Chair*
2. Roll call – *David Walker, Chair*
3. Approval of March 21, 2018 Minutes – *David Walker, Chair*

Agenda

1. Call Meeting to Order – *David Walker, Chair*
2. Roll Call – *David Walker, Chair*
3. Approval of March 21, 2018 Meeting Minutes – *David Walker, Chair*
4. Financial Market Update and Presentation of the Draft May 2018 Estimated Claims Paying Capacity – *Kapil Bhatia, Raymond James & Associates, Inc.*
5. Vote to Approve the May 2018 Claims Paying Capacity Estimates – *David Walker, Chair*
6. FHCF Chief Operating Officer's Report – *Anne Bert*
7. Schedule & Agenda for Next Meeting – *Anne Bert*
8. Audience Comments/Closing Remarks/Adjourn – *David Walker, Chair*

4. Financial Market Update and Presentation of the Draft May 2018 Estimated Claims Paying Capacity

-- Kapil Bhatia, Raymond James & Associates, Inc.

5. Vote to Approve the May 2018 Claims Paying Capacity Estimates

-- David Walker, Chair

6. FHCF Chief Operating Officer's Report

-- Anne Bert

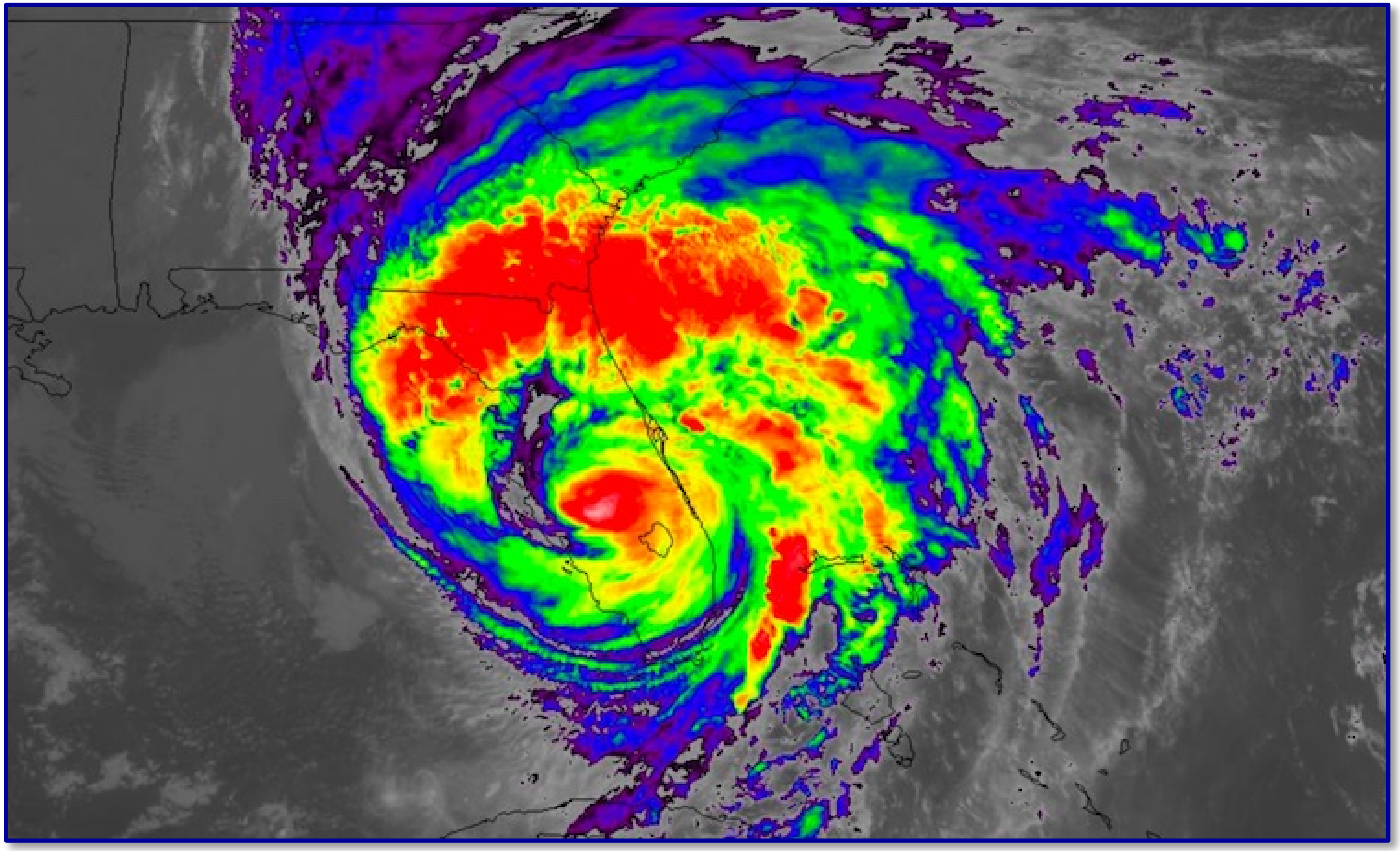
A. 2017 Hurricane Season Loss Reimbursement Update

B. 2018-2019 Contract Year FHCF Structure

C. Report, "Then And Now: Florida's Property Insurance Crisis After 25 Years"

D. Recent Activities

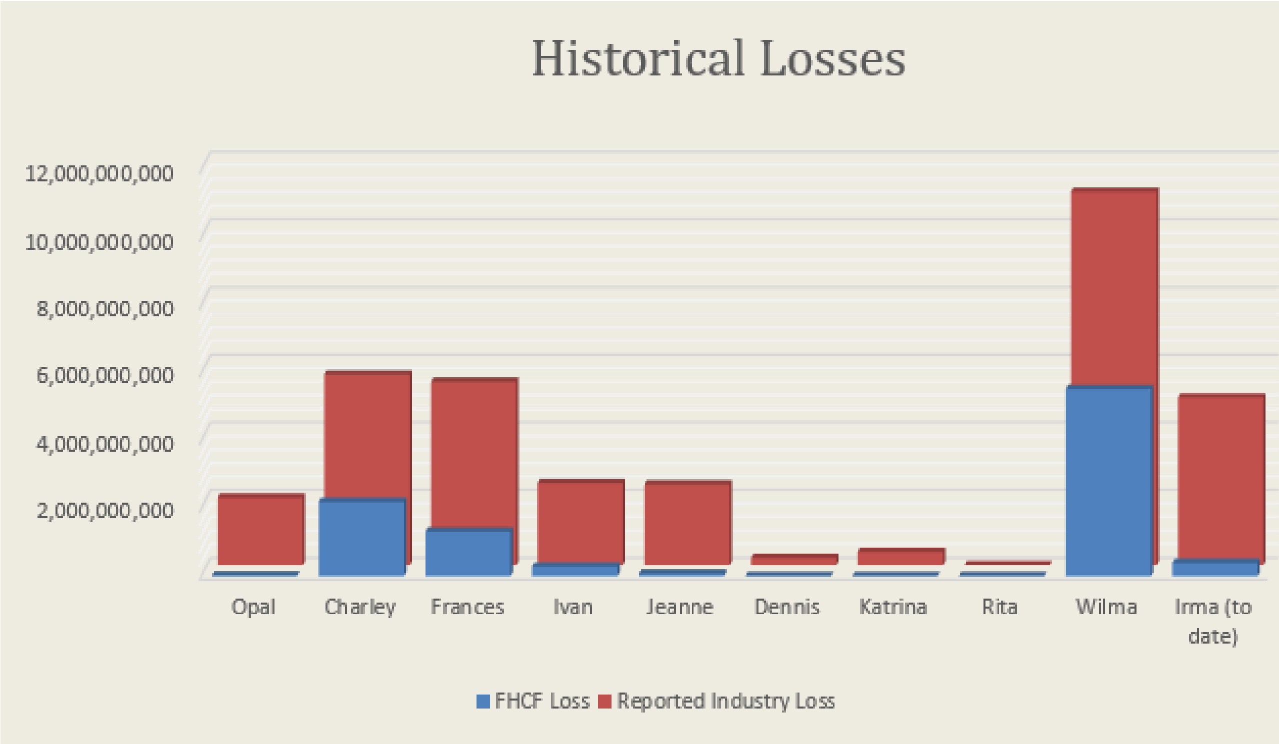
2017 Hurricane Season Loss Reimbursement Update



HURRICANE IRMA LOSSES as of 5/10/18

For Illustration Purposes Only

	Industry	FHCF
Total Incurred Residential Loss	$8.026 Billion	$2.040 Billion
Reported Losses	$7.498 Billion 93.4%	$1.693 Billion 83.0%
Paid Losses	$4.954 Billion 61.7%	$0.398 Billion 19.5%



Year	FHCF Paid	Reported Industry Paid in FL*	% of Reported Paid In FL
1995	13,000,000	2,000,000,000	0.7%
2004	3,859,300,050	15,859,709,655	24.3%
2005	5,535,996,111	11,645,733,031	47.5%
2017	398,000,000	4,954,000,000	8.0%
Total	9,806,296,161	34,459,442,686	28.5%

* Does not reflect the total value of FL residential losses, as insurers do not report losses to the FHCF after they have reached their coverage limit.

Not Drawn to Scale.

2018/2019 Contract Year

Not Official (For Illustrative Purposes Only)

as of May 15, 2018

$17B FHCF Capacity

(Loss Adjustment Expense is included in the capacity)

Assumption: *Ultimate Losses of $2.04B for Hurricane Irma in 2017*

Ground Up Losses ($B)	Return Time (Years)	Probability (%)
$29.4	48	2.10%
$26.9	41	2.41%
$22.2	32	3.14%
$20.9	30	3.39%
$7.3	10	10.13%

$1.9B of $2.2B – Series 2013A and 2016A Pre-Event Bonds

$1.9B Potential Post-Event Bonding

$3.6B of $14.1B Projected 2018 Year-End Fund Balance

Preliminary: $1.0B – Risk Transfer

$10.5B of $14.1B Projected 2018 Year-End Fund Balance

$6.0B Industry Co-Payments

$7.3B Industry Retention

14.1B Cash
1.0B Risk Transfer (prelim)
2.2B 2013A & 2016A Bonds*
$17.3B Total Resources

- 17.0B Statutory Limit
$0.3B Preserved for Subsequent Season

- Excludes $500M debt service payment due July 1, 2018

Post-Event Bonding Capacity May 2018

$8.2B

Represents industry losses. FHCF probabilities are lower at the top loss levels and higher at the lower loss levels. All insurers would need to reach their maximum coverage limit in order to exhaust the last billion of FHCF Coverage. Insurers can trigger coverage below the industry retention.

Individual company retentions are their share of the industry retention.

Not Drawn to Scale.

2019/2020 Subsequent Season

Preliminary Estimates

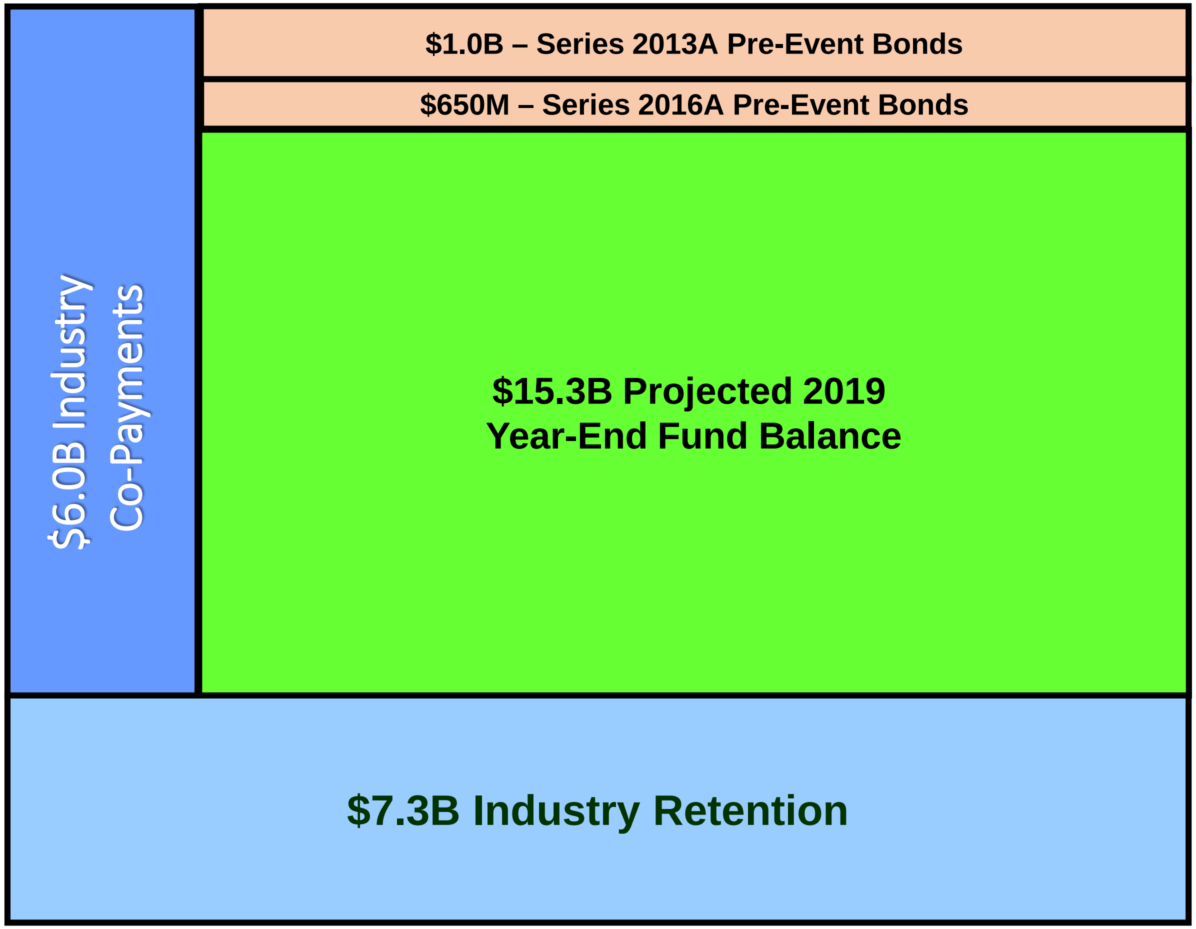
Not Official (For Illustrative Purposes Only)

as of May 15, 2018

$17B FHCF Capacity

(Loss Adjustment Expense is included in the capacity)

Assumption: *No loss in prior year*



15.30B	Cash
1.65B	2013A & 2016A Bonds*
$16.95B	Total Resources
- 17.00B	Statutory Limit
$ 0.05B	Potential Bonding Needed

* Excludes $550M debt service payment due July 1, 2019

Post-Event Bonding Capacity May 2018

$8.2B

Represents industry losses. FHCF probabilities are lower at the top loss levels and higher at the lower loss levels. All insurers would need to reach their maximum coverage limit in order to exhaust the last billion of FHCF Coverage. Insurers can trigger coverage below the industry retention.

Individual company retentions are their share of the industry retention.

2019/2020 Subsequent Season

Not Drawn to Scale.

Preliminary Estimates

Not Official (For Illustrative Purposes Only)

as of May 15, 2018

$17B FHCF Capacity

(Loss Adjustment Expense is included in the capacity)

Assumption: *Preserved all Pre-Event Bonds after total loss in prior year*

$6.0B Industry Co-Payments

$14.25B – Potential Bonding Needed

$1.0B – Series 2013A Pre-Event Bonds

$650M – Series 2016A Pre-Event Bonds

$1.1B Projected 2019 Year-End Fund Balance

$7.3B Industry Retention

1.10B	Cash
1.65B	2013A & 2016A Bonds*
$2.75B	Total Liquid Resources
17.0B	Statutory Limit
-14.25B	Potential Bonding Needed
8.2B	May Bonding Capacity
$6.35B	Remaining Bonding Need

* Excludes $550M debt service payment due July 1, 2019

Post-Event Bonding Capacity May 2018

$8.2B

- **Represents industry losses. FHCF probabilities are lower at the top loss levels and higher at the lower loss levels. All insurers would need to reach their maximum coverage limit in order to exhaust the last billion of FHCF Coverage. Insurers can trigger coverage below the industry retention.**
- **If Pre-Event bond proceeds are used and replaced with Post-Event bonds, the total potential bonding needed would be $15.9 billion ($14.25B + $1.65B).**
- **Individual company retentions are their share of the industry retention.**

OF SERVICE TO FLORIDA

Then And Now:
Florida's Property Insurance Crisis After 25 Years

- The FHCF was created 25 years ago as one part of Florida's effort to alleviate a crisis in property insurance that was seen as threatening the entire Florida economy.
  - Other efforts included creation of a residual market for residential property insurance (which eventually became Citizens), regulatory changes, use of hurricane models for ratemaking, financial support for homegrown property insurers, mitigation funding, and strong, well-enforced building codes.
- Relief or cure?
  - How do things look 25 years later? Have these efforts succeeded in alleviating the crisis? Has the crisis been cured, or do its underlying causes persist?

Then And Now:
The World After Andrew

- Hurricane Andrew, the first major hurricane to hit Florida in 27 years, resulted in losses that greatly exceeded industry expectations.
  - Over $10 billion of residential losses dwarfed prior estimates.
  - 3 insurers had losses in excess of $1 billion.
  - 20 insurers lost 10% of their surplus or more, and 10 insurers lost 30% of their surplus or more.
  - At least 10 insurers became insolvent as a result of the hurricane.
  - FIGA had to issue $500 million worth of bonds to pay losses of insolvent insurers.

Then And Now:
The World After Andrew

- Hurricane Andrew destabilized the property insurance market.
  - Insurers threatened massive cancellations and nonrenewals. 44 insurers had announced plans to fully or partially withdraw from Florida, placing at least 840,000 policies at risk.
  - Large insurers reported that sufficient amounts of catastrophic reinsurance were not available at any price, and the cost for what was available had increased dramatically.
  - There was a general consensus that rates were grossly inadequate, but no consensus as to how to address the problem.
    - In 1992, insurers collected $1.1 billion in direct written premium statewide for homeowners' policies. Andrew losses for homeowners' policies were $10.2 billion.
    - Hurricane models were in their infancy, and very controversial.
  - Many insurers perceived that their continued presence in Florida was a threat to their survival.

Then And Now:
The World After Andrew

- In June 1995, almost three years after Hurricane Andrew, a Florida legislative staff report described the continuing problem:

"Since Hurricane Andrew struck southern Dade County on August 24, 1992, the Florida property insurance market has become the most unstable in the United States, marked by:

- General unavailability of new property insurance coverage, except from a state-created insurer, in some parts of the state;
- Limited availability of new property insurance coverage in most other areas of the state;
- The express desire of many property insurers to leave or to sharply reduce their writings in the Florida market;
- Nonrenewal of substantial numbers of property insurance policies, especially in the most hurricane prone areas of the state…"

Then And Now:
The World After Andrew

- According to the Office of Insurance Regulation ("The Property Insurance Market in Florida 2004: The Difference a Decade Makes"), these were the lessons learned from Andrew:
  - The storm that could not happen did.
  - Florida got lucky.
  - Rates were inadequate.
  - Surplus and capital were inadequate.
  - It might be prudent to consider developing true pre-event catastrophic reserves. (Current regulation and tax law prevent this from occurring in the US market.)
  - Public/private cooperation was needed to provide risk protection to the citizens of Florida.

Then And Now:
The World After Andrew

- OIR’s conclusion:
  - “With rates allowed to find more sustainable levels, with Citizens in place to provide insurance for those risks the private market would not underwrite, and with the FHCF in place to provide a level of catastrophic protection, the private market had largely stabilized by the end of 2003 and on into 2004.”
- And:
  - “The 2004 [hurricane] season showed that the FHCF worked as it was intended. Even though it was designed to provide a layer of catastrophic protection in the event of the return of another Andrew-like hurricane, it worked well in the face of four, individually less powerful storms. The resulting issues of multiple limits and deductibles are being addressed, but the basic structure of the second layer of protection proved itself.”

Then And Now:
The World After Andrew

- From the Report of the Task Force on Long-Term Solutions for Florida's Hurricane Insurance Market (2006):
  - "The FHCF fulfilled its purpose in the face of the 2004 hurricane season, as well as the 2005 hurricane season. The stability and availability of capital in the Florida Hurricane Catastrophe Fund has **served as the cornerstone for market recovery and as the catalyst for attracting new companies and additional new capital** to Florida."

Then And Now:
Today's Market

- Today's Florida property insurance market looks very different from the market of the 1990's:
  - In 1995, the top 6 property insurers—all of which were major national companies—accounted for a combined market share of 66.5%. The two largest companies had market shares of 30.5% and 20.4%, respectively.
  - Today, the top 10 companies (including Citizens) account for a total market share of 51.6%. The largest single market share is 8.9%, and the bulk of the market consists of Florida-based companies and Florida subsidiaries of national companies.
  - According to an analysis from Citizens, as of September 30, 2017, Florida-based companies had a combined market share of 71% (measured by Total Insured Value).
    - Florida subsidiaries of national companies had an 11% share, Citizens had 5%, and others (including national companies) were responsible for the remaining 13%.

Then And Now:
Today's Market

- The size of the residual market is usually a good indicator of the health of the market generally.
  - At various times over the last 25 years, the number of policies in Citizens or its predecessors (the Florida Windstorm Underwriting Association and the Residential Property and Casualty Joint Underwriting Association) exceeded 1.5 million.
  - Today, Citizens has under 500,000 policies in force.
    - While aggressive and effective depopulation efforts have been directly responsible for the decline in policy count, successful depopulation could not have occurred in the context of a dysfunctional market.

Then And Now: Florida's Vulnerability

- Florida was, and remains, more vulnerable to hurricanes than any other state.
  - From NOAA's analysis of the most costly hurricanes in history, Florida is responsible for 8 of the top 20 (adjusting for inflation) or 7 of the top 20 (not adjusting for inflation).
  - NOAA currently estimates the total (insured and uninsured) cost of Hurricane Irma at $50 billion, making it the 5th most costly on record.
    - Even so, Irma losses would have been dramatically higher had it made landfall along the Atlantic coast or further north on the Gulf coast.
  - Looking at the losses that historic storms would cause today,
    - A repeat of the 1926 Miami hurricane would result in $80 billion of insured losses ($160 billion total losses). This is nearly twice the amount projected for a repeat of Katrina.
    - A repeat of Andrew would result in $42 billion of insured losses ($84 billion total).

Then And Now:
Florida's Vulnerability

- Florida's population continues to grow in the state's most vulnerable areas.
  - Florida's population grew by 58.3% (or 7,546,071 persons) between the 1990 US Census and the official 2017 population estimate.
  - Although many areas experienced even faster growth, population growth in the state's most high-risk counties was significant.

County	Population (2017)	Growth since 1990	Percent change
Miami-Dade	2,743,095	805,901	41.6%
Broward	1,873,970	618,439	49.3%
Palm Beach	1,414,144	550,641	63.8%
Lee	698,468	353,355	108.4%
Collier	357,470	205,371	135.0%
Charlotte	172,720	61,745	55.6%
Monroe	76,889	(1,135)	-1.5%
7-county total	7,336,756	2,604,317	55.0%

Recent Activities:

- 2018 Exposure Examination Planning Meeting
- Loss Reimbursement Examination Program Meetings
- SBA Quarterly Risk & Compliance Meeting
- Monthly Exam Meetings
- Weekly *WIRE* Planning Meetings

Upcoming Activities:

- 18th Annual FHCF Participating Insurers Workshop, Orlando, Florida June 5 & 6, 2018
- SBA/Cabinet Meeting – Approval of 2018 Premium Formula and to file Rule 19-8.028 for notice and adoption

7. Schedule & Agenda for Next Meeting

-- Anne Bert

- July 9, 2018, 1:30 p.m. ET

  Tentative conference call meeting to be held if a rule hearing on Rule 19-8.028, Reimbursement Premium Formula, is timely requested to review comments made at the rule hearing

- August/September (Conference Call) – Request approval to file Rule 19-8.010, Reimbursement Contract, for Notice of Proposed Rulemaking – Date and time to be determined

- October – Presentation and approval of the October 2018 Claims Paying Capacity Estimates – Date and time to be determined

8. Audience Comments/Closing Remarks/Adjourn

-- David Walker, Chair