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June 2, 2009

Florida Hurricane Cat Fund and 2009 Florida Update

Property Specialty Briefing

Agenda

- Florida Hurricane Catastrophe Fund (FHCF): Fundamentals
- FHCF Bonding Capacity
- Florida Reinsurance Market Update

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Florida Hurricane Catastrophe Fund (FHCF): Fundamentals

FHCF: Fundamentals

Creation

- The FHCF is a statutorily created reinsurer
  - Florida only
  - It covers residential <u>hurricane</u> losses
- FHCF created in November 1993 during a special legislative session
  - Purpose: maintaining insurance capacity in Florida
  - Reasons:
    - Lack of (re)insurance capacity considered a danger to the economy
    - Lack of (re)insurance capacity endangers the public health, safety and welfare
    - Private sector insurers are seen as unable or unwilling to maintain sufficient funds to pay all claims in the event of a catastrophe.
    - ***Increase capacity by reducing exposure to hurricane losses.***
- FHCF is structured as a State Trust
  - Under the direction and control of the State Board of Administration (SBA)
  - Makes revenues received exempt from Federal Income Tax

FHCF: Fundamentals

Coverages

- The FHCF has several programs
  1. Mandatory Coverage
  2. Temporary Increase in Coverage Limit (TICL) Options
  3. Temporary Emergency Additional Coverage Options (TEACO)
  4. Limited Apportionment Company (LAC) Layer

- FHCF sets the premium for the mandatory and TICL layers – TEACO and LAC rates are set by statute

- The FHCF **reimburses** participating insurers for a portion of their catastrophic hurricane losses

- Funds to reimburse losses generated by premium, investment income and post-event assessments

FHCF: Fundamentals

Coverages

- 2009/2010 FHCF Programs – Includes provisions in HB 1495

- Mandatory Coverage (Industry $17.18B xs $7.22B)
  - Required as a condition of doing business in the state
  - Company selects either a 45%, 75% or 90% coverage level – most take 90%
  - Retention and Limit adjusted based on statewide annual exposure growth
  - One aggregate limit
  - Retention drops by 1/3 for the 3rd largest and subsequent events
  - ROL = 5.99%

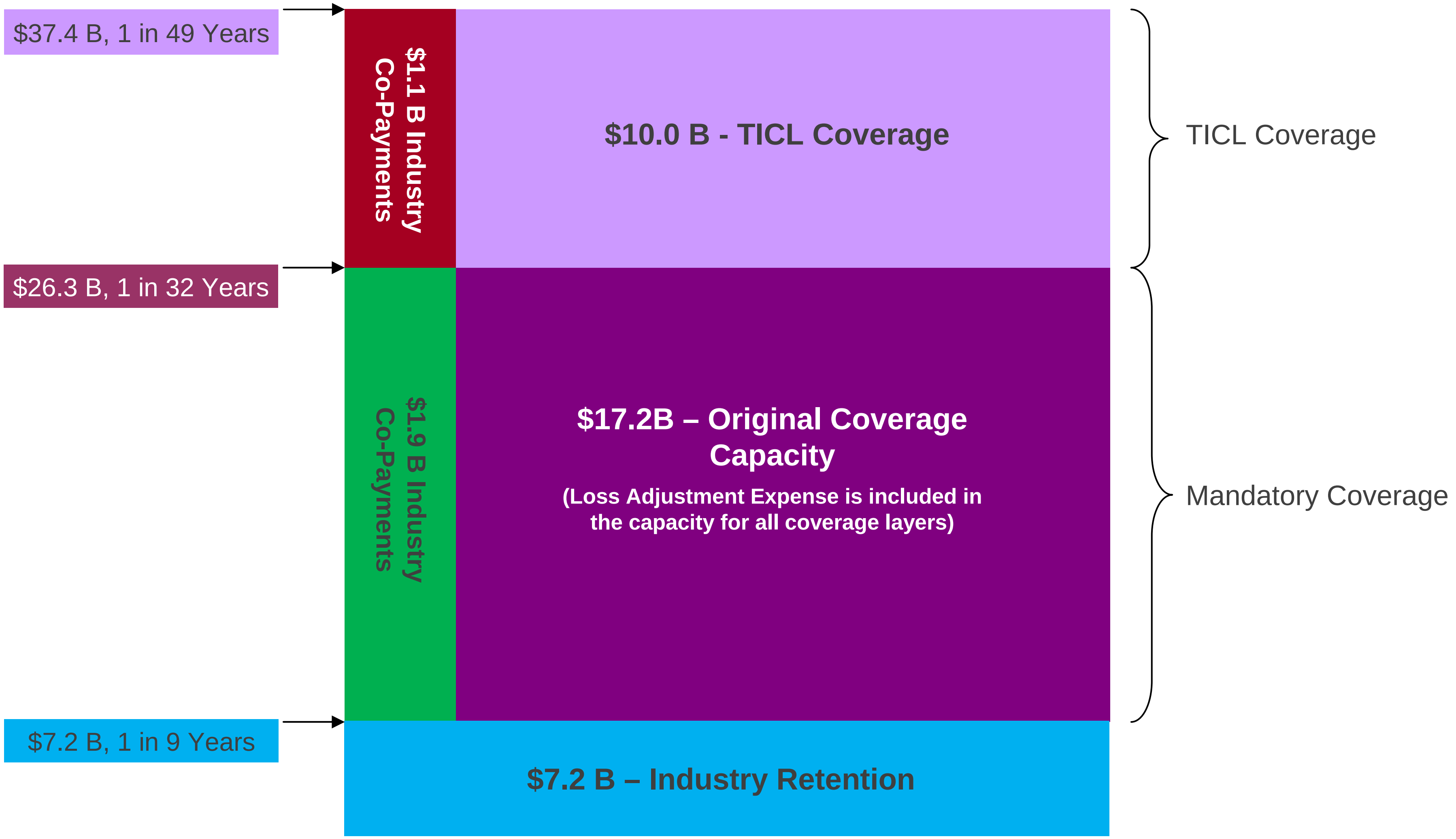
FHCF: Fundamentals

Coverages

- TICL Layer (Industry: as much as $10B xs $26.3B)
  - Is not really a layer but adds additional limit to Mandatory Coverage
  - Can be as much as $10B (down from $12B in 2008/09)
  - Additional limit can be purchased in increments of $1B of Industry Limit (stay tuned)
  - Company coverage level (e.g., 90%) the same as Mandatory level
  - Rate on line (ROL) of 2.5% is now subject to increasing multipliers over the next few years
  - Increases the aggregate limit

FHCF: Fundamentals

Coverages



FHCF: Fundamentals

Coverages

- LAC Layer ($10m xs 30% of Surplus)
  - Retention is 30% of company's surplus as of 12/31/08
  - Limit is $10m and the ROL is 50%
  - Includes one prepaid reinstatement
  - Available to:
    - LACs – FL only and have $25m or less of surplus – the proportion of assessments they are required to pay is limited
    - Insurance Capital Build-up Incentive Program participants – encourages Florida companies to raise additional capital and increase writings

- TEACO rates are set by legislation
  - Three very expensive options – 75% to 85% Rate On Line (ROL)
  - Open market prices tend to be in the 40% to 50% range
  - No companies have purchased this layer

FHCF: Fundamentals

Rate Making – Mandatory Coverage

- FL statute sets the procedure for determining the Industry Retention and Limit
  - Limit and Retentions set in 2005 and adjusted based on exposure growth (with certain limitations)
- Industry premium is determined by a ratemaking procedure
  - Modeled industry exposure produces expected layer loss by
    - Type of Business (Residential, Comm. Residential, Mobile Home, Tenants, Condo Owners)
    - FHCF Territory
    - Construction (Masonry, Frame. etc)
    - Deductibles
  - Additional rating classifications where used this year
    - Year built, structure opening protection, roof shape, roof deck attachment
- Limit and Retention multiples are then determined

FHCF: Fundamentals

Ratemaking – Mandatory Coverage

- Retention Multiple = Retention divided by Premium
- Payout Multiple = Payout Limit divided by Premium

FHCF Layer Parameters	2009 Rates[1]
Industry Limit	17.18B
Industry Retention	7.22
Industry Premium (Projected)	1.03
Retention Multiple	7.0121
Payout Multiple	16.6927

[1] with secondary modifiers

FHCF: Fundamentals

Company Mandatory Premium, Limit & Retention

- An insurance company's retention and limit is determined by their premium
  - Premium based on Company's exposure by Type of Business, FHCF Territory, Construction, Deductibles and new rating factors

Co.'s FHCF Premium		Retention Multiple		Co.'s Retention
14.0M	×	7.0121	=	98.2M

Co.'s FHCF Premium		Payout Multiple		Co.'s 90% Limit
14.0M	×	16.6927	=	233.7M

Co.'s 90% Limit		Coverage %		Co.'s Full Limit
233.7M	÷	0.9000	=	259.7M

FHCF: Fundamentals

Company TICL Premium & Limit

- TICL Premium and Limit can be determined
  - Based on the TICL limit purchased –
    Equivalent to industry $1B to $10B in $1B increments
  - Company's Mandatory Coverage premium
- This example uses TICL Premium Factors and Payout Multiples for the $10B limit option

Co.'s Mandatory Premium		TICL Premium Factor		Co.'s TICL Premium
14.0M	×	0.2423	=	3.4M

Co.'s TICL Premium		TICL Payout Multiple		Co.'s 90% TICL Limit
3.4M	×	40.1121	=	136.1M

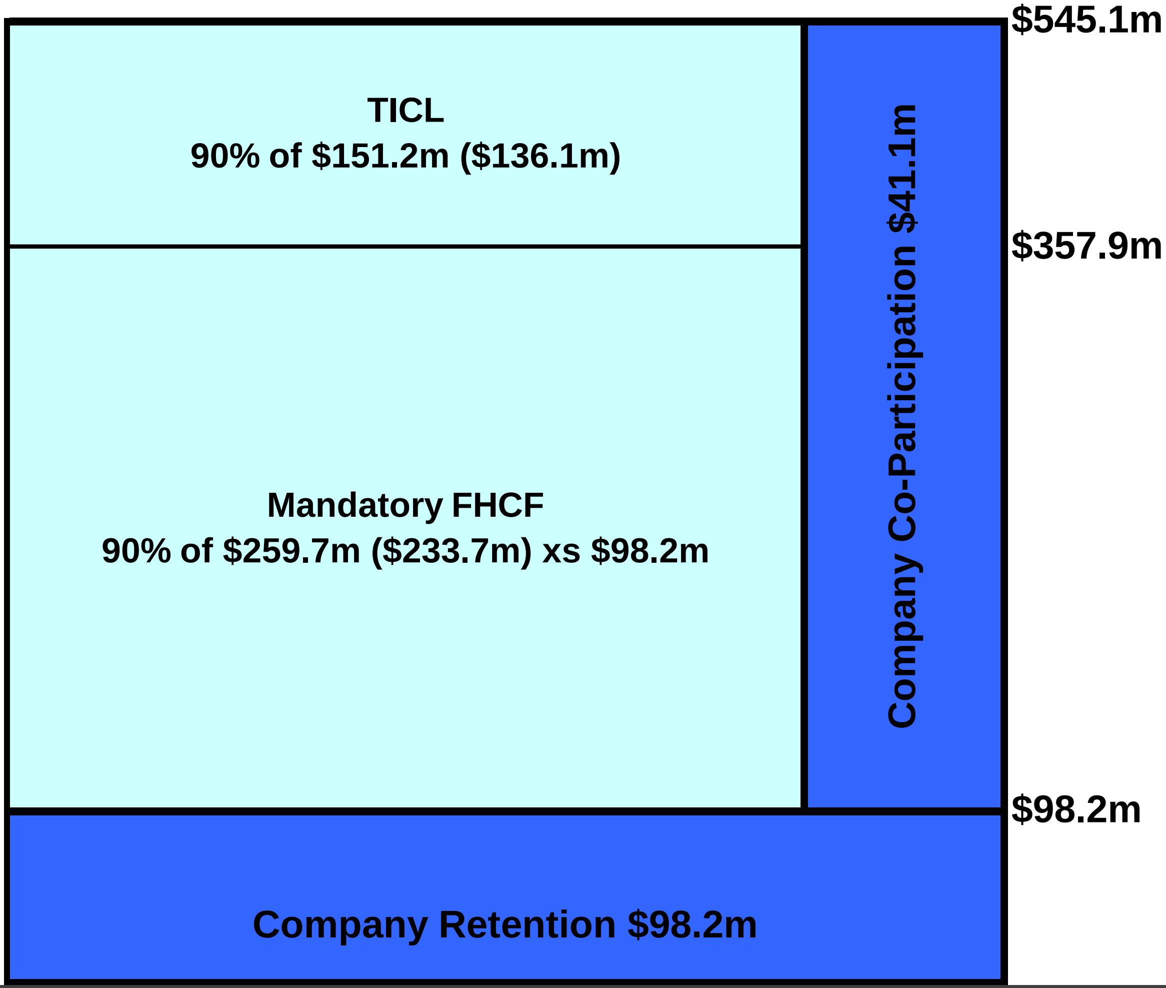
Co.'s 90% TICL Limit		Coverage %		Co.'s Full TICL Limit
136.1M	÷	0.9000	=	151.2M

- **Final 2009/10 TICL Premium is the $3.4M × 2.0 = $6.8m**

FHCF: Fundamentals

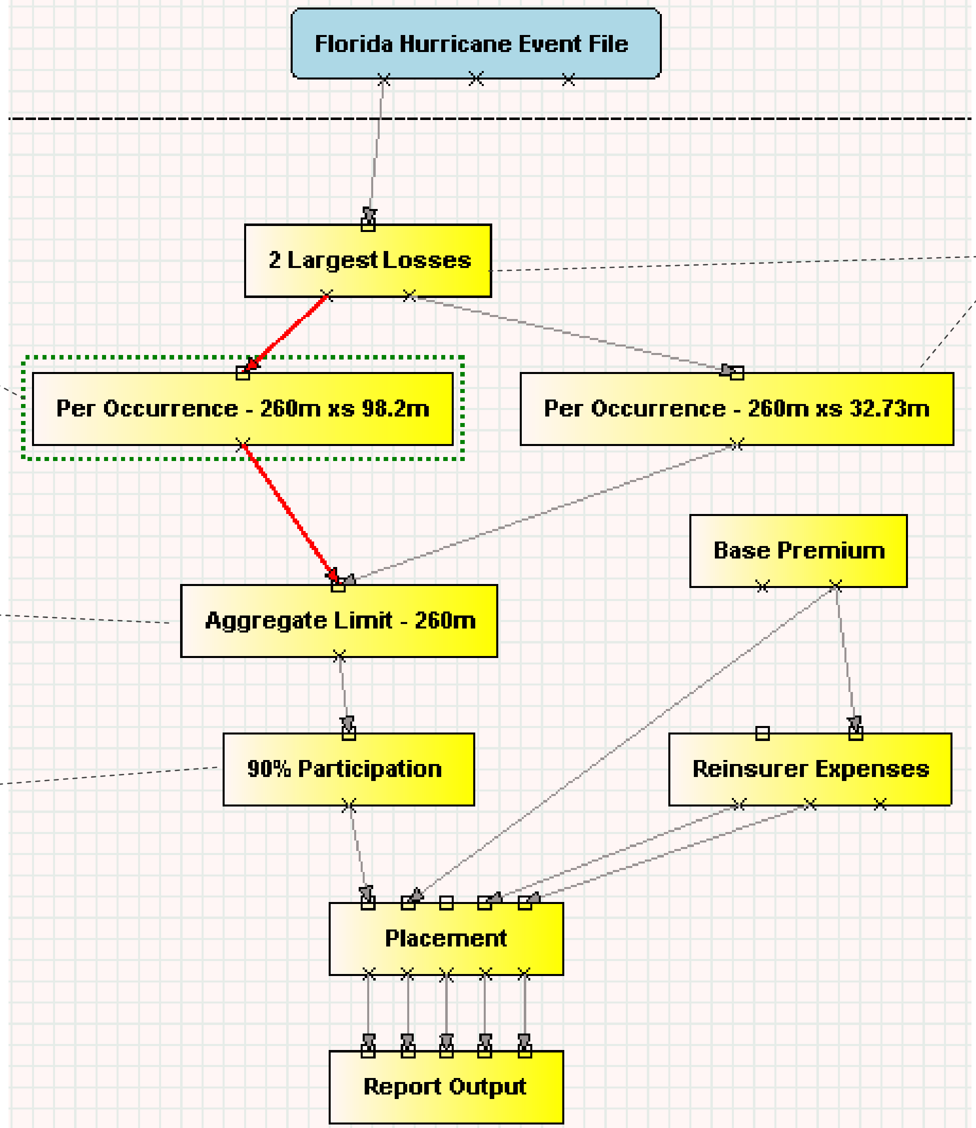
Company Combined Premium, Limit & Retention

Mandatory & TICL Limit:
90% of $410.9m or $369.8m



FHCF: Fundamentals

Company FHCF Contract



Mandatory limit and retention as calculated – Applies to 2 largest events

One Aggregate Limit

90% Participation

3rd Largest Event Drops Retention by 1/3

FHCF: Fundamentals

Company Combined Premium, Limit & Retention

Questions?

FHCF Update: Bonding Capacity

FHCF Update: Bonding Capacity

- The FHCF **reimburses** participating insurers for covered losses.
- Potential sources of reimbursement include:
  1. Fund balance available to pay claims (i.e. surplus)
  2. Pre-event borrowing proceeds and related liquidity instruments
  3. Post-event borrowing proceeds (secured by emergency assessments)
  4. Reinsurance proceeds (if any is purchased)
- In May and October of each year, the FHCF is required to publish an estimate of its borrowing capacity

FHCF Update: Bonding Capacity

New Legislation

- CS/CS/CS/HB 1495 was passed during the 2009 Legislative Session and became law on May 28, 2009
- The FHCF's Estimated Loss Reimbursement Capacity will be impacted in the following ways:
  - The $10 million coverage option for certain companies is reinstated (LAC Layer)
  - A "cash build-up" factor of 5% is added
  - The TICL coverage option is reduced from $12 billion to $10 billion
  - The TICL premium increases by a factor of 2 for 2009/10
- The estimates provided in this presentation reflect these provisions

FHCF Update: Bonding Capacity

Post-Event Borrowing Capacity

- Theoretical Reimbursement Capacity –
  Borrowing capacity based solely on statutorily available revenue repayment streams (e.g., emergency assessments)

  - Estimated loss reimbursement capacity –
  Estimated capacity given current market conditions

- Previous published estimates only used theoretical capacity

- The current published estimate incorporates both theoretical and estimated capacity

FHCF Update: Bonding Capacity

Post-Event Borrowing Capacity

- The FHCF has the statutory ability to issue tax-exempt bonds
  - Secured by emergency assessments to meet its loss reimbursement obligations
  - Current long-term bond ratings of Aa3/AA-/AA-.
  - Constraint - ongoing emergency assessment limit of 6% per year

- Existing tax-exempt post-event debt:

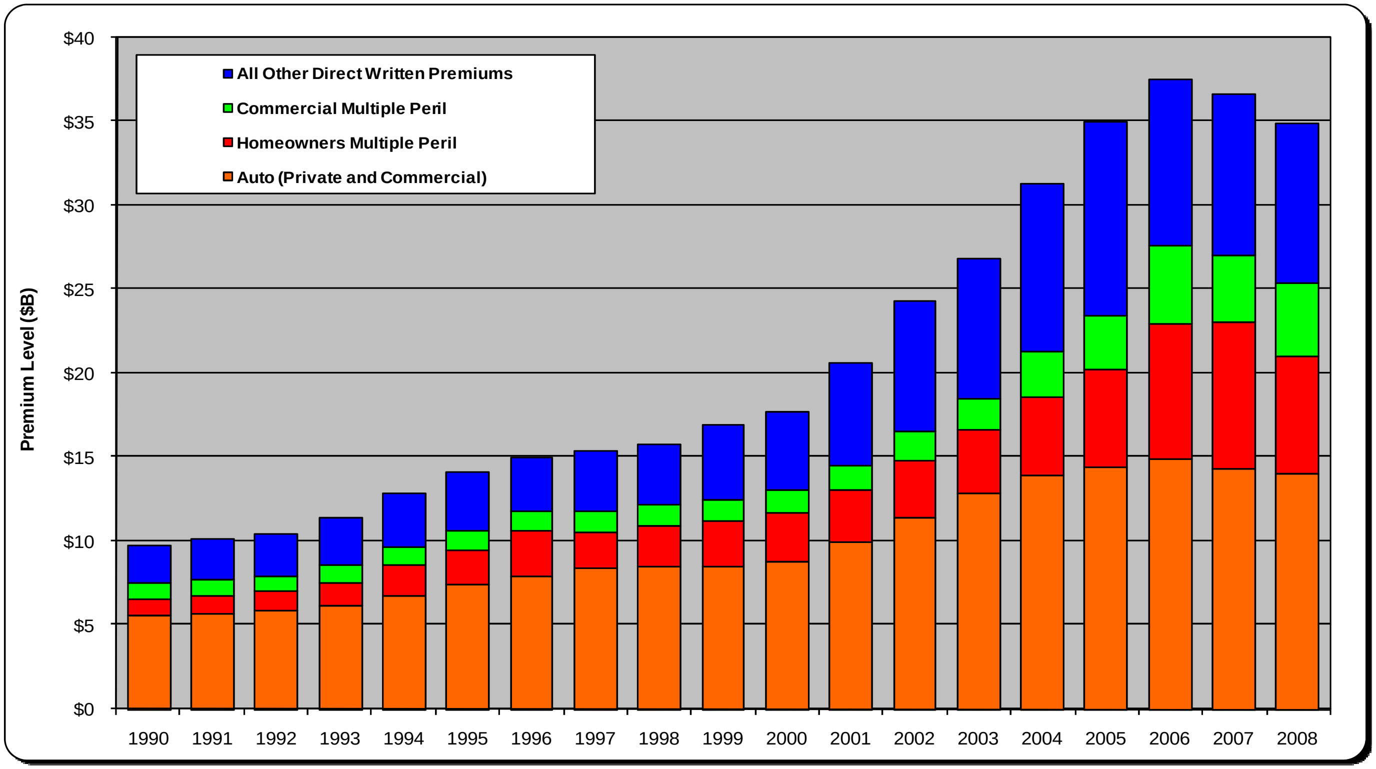
	Series 2006A Bonds		Series 2008A Bonds		Total Post-Event Debt Service			Annual
	Principal	Interest	Principal	Interest	Principal	Interest	P&I	Assessment %
2009*	$256,655,000	$55,369,575	$0	$27,459,536	$256,655,000	$82,829,111	$339,484,111	1.00%
2010	269,485,000	42,536,825	0	29,865,356	269,485,000	72,402,181	341,887,181	1.00%
2011	282,660,000	29,362,575	0	29,865,356	282,660,000	59,227,931	341,887,931	1.00%
2012	296,795,000	15,229,575	0	29,865,356	296,795,000	45,094,931	341,889,931	1.00%
2013	0	0	300,000,000	29,865,356	300,000,000	29,865,356	329,865,356	1.00%
2014	0	0	325,000,000	15,450,425	325,000,000	15,450,425	340,450,425	1.00%
Total	**$1,105,595,000**	**$142,498,550**	**$625,000,000**	**$162,371,386**	**$1,730,595,000**	**$304,869,936**	**$2,035,464,936**	**-**

* Includes a full year of interest payments. Principal on Series 2006A and 2008A Bonds is due on July 1.

FHCF Update: Bonding Capacity

Post-Event Borrowing Capacity - Assessment Base

- FHCF bonds are backed by the FHCF's ability to assess Florida policyholders
  - The FHCF assessment base includes all property & casualty lines except worker's comp, medical malpractice, accident and health, and federal flood insurance
  - Current base is $34.9 billion



FHCF Update: Bonding Capacity

The Results – Theoretical Capacity

- Up to $27.5 billion of single season maximum loss reimbursement theoretical capacity is currently available
  - $8.0B in current available funds
  - $19.5B in post-event borrowing capacity

- Theoretical multi-year loss reimbursement capacity of $46.843 billion, broken down as follows:

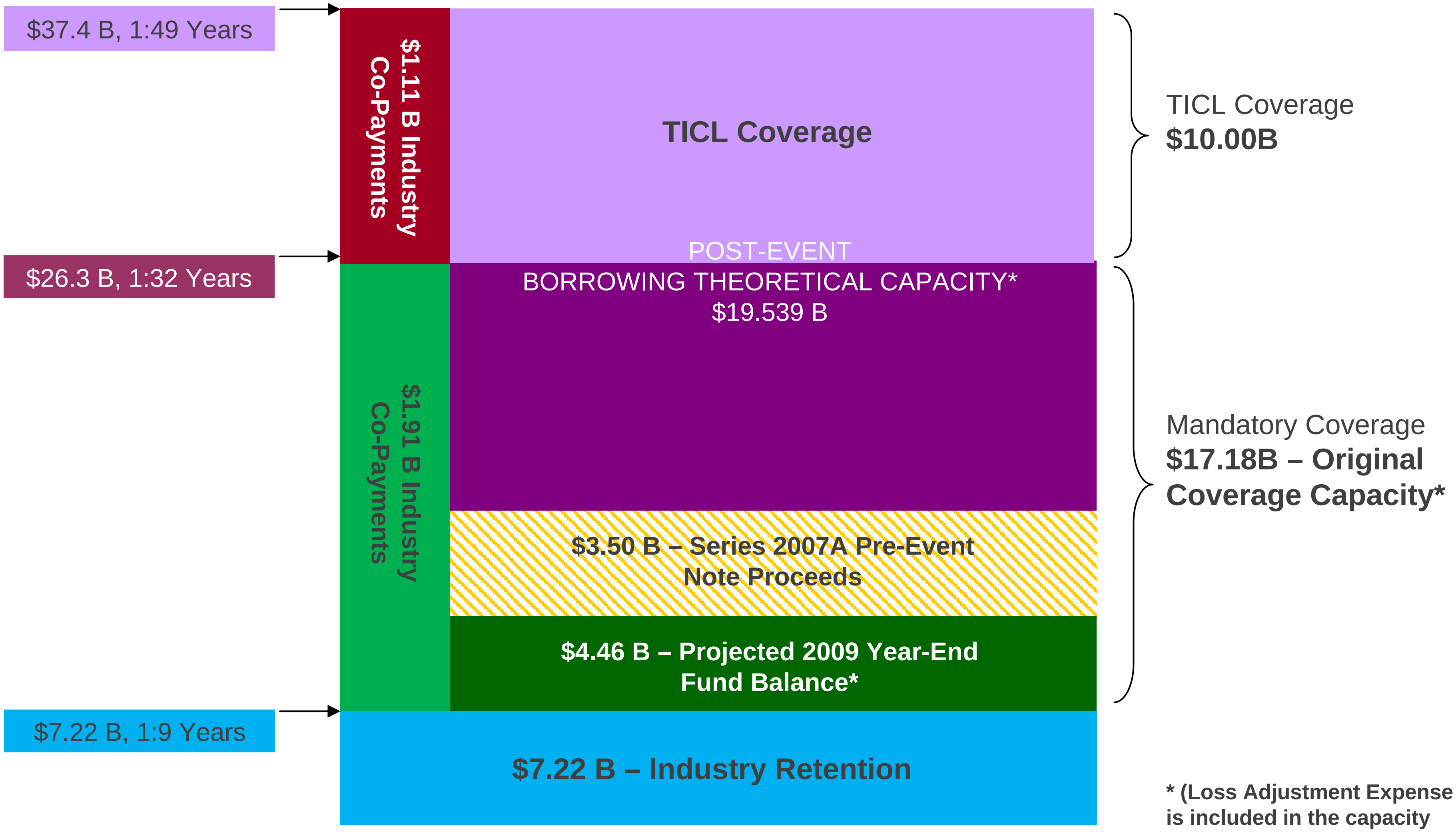
	Projected Fund Balance	Pre-Event Notes (Series 2007A)	Post-Event Borrowing Capacity*	Total Loss Reimbursement Capacity	Annual Assessment %
Initial Season	$4.460 B	$3.500 B	$19.539 B	$27.499 B	5.4%
Subsequent Season	$1.534 B	-	$17.810 B	$19.344 B	4.6% **
Total	**$5.994 B**	**$3.500 B**	**$37.349 B**	**$46.843 B**	**10.0%**

* Represents total borrowing capacity, not claims-paying capacity. Claims-paying capacity will be less due to costs of issuance, capitalized interest, deposit to debt service reserve fund, etc.

** 1% of total emergency assessments is not utilized until 2014 when the Series 2006A Bonds and Series 2008A Bonds reach final maturity.

FHCF Update: Bonding Capacity

The FHCF's Potential Obligations & Theoretical Capacity



*** (Loss Adjustment Expense is included in the capacity for all coverage layers)**

FHCF Update: Bonding Capacity

The Results – Estimated Capacity

- Estimated Post-event Bonding Capacity - from $4.5B to $10B
  - Significant uncertainty exists as to the FHCF's bonding capacity after an event given current market conditions.
  - The FHCF's senior managers submitted bonding capacity estimates based on both tax-exempt and taxable markets, and with a wide range of interest rate flexibility and timing

	Projected Fund Balance	Pre-Event Notes (Series 2007A)	Post-Event Borrowing Capacity*	Total Loss Reimbursement Capacity	Annual Assessment %
Initial Season	$4.460 B	$3.500 B	$4.500 B** (min.) $10.000 B** (max.)	$12.460 B (min.) $17.960 B (max.)	1.6% *** 3.6% ***

- Represents total borrowing capacity. Claims-paying capacity will be less due to costs of issuance, capitalized interest, deposit to debt service reserve fund, etc.

** Minimum post-event borrowing capacity based on an arithmetic mean of senior managers' estimates of minimum borrowing capacity over the next 12 months (Citi $10B, GS $0B, and JPM $3.5B); maximum 12-month post-event borrowing capacity based on an arithmetic mean of senior managers' estimates of maximum borrowing capacity over the next 12 months (Citi $12B, GS $11B, and JPM $6.5B).

***Based on an above-market interest rate of 12% amortized over a 30-year period.

FHCF Update: Bonding Capacity

Pre-Event & Other Liquidity Resources

- Pre-Event funding is designed to provide cash to the FHCF to pay future loss reimbursements.

  - For example, the Series 2007A Floating Rate Notes
    - Description: Taxable floating rate debt sold to various institutional investors in 10/2007
    - Par Amount: $3,500,000,000
    - Interest Rate: 1-month LIBOR + 78 bps (reset every month)
    - Final Maturity: October 15, 2012 (“bullet” maturity)
    - Optional Redemption: October 15, 2008 @ 101% (declines 0.25% annually)

FHCF Update: Bonding Capacity

Breakdown of Three Main Funding Sources

- **Fund Balance:**
  - As of 12/31/08 $3,020,000,000
  - Additions $1,467,000,000
  - Subtractions ($27,000,000)
  - Projected 12/31/09 $4,460,000,000

TOTAL POTENTIAL LIQUIDITY $7.960 B

- **Pre-Event & Other Liquidity Resources:**
  - Floating Rate Notes, Series 2007A $3,500,000,000

FHCF Update: Bonding Capacity

Breakdown of Three Main Funding Sources

- **Post-Event Borrowing Capacity (Initial Season)*:**
  - Theoretical Borrowing Capacity$19,539,000,000
  - Estimated Borrowing Capacity** (12-mo min.)$4,500,000,000
  - Estimated Borrowing Capacity** (12-mo max.)$10,000,000,000

- **Total Loss Reimbursement Capacity (Initial Season):**
  - Theoretical Capacity $27,499,000,000
  - Estimated Capacity (12-mo min.)$12,460,000,000
  - Estimated Capacity (12-mo max.)$17,960,000,000

Total Potential Capacity Shortfall of $9.5B to $15B

* Represents total borrowing capacity. Claims-paying capacity will be less due to costs of issuance, capitalized interest, deposit to debt service reserve fund, etc.

** Minimum post-event borrowing capacity based on an arithmetic mean of senior managers' estimates of minimum borrowing capacity over the next 12 months; maximum 12-month post-event borrowing capacity based on an arithmetic mean of senior managers' estimates of maximum borrowing capacity over the next 12 months.

FHCF Update: Bonding Capacity

Conclusion

- Positives: The FHCF has substantial liquid resources of $7.96 billion available to it
  - These resources would enable the FHCF to avoid bonding after most events, and would provide a time cushion before bonding was required after a large event
  - The probability of storm losses exceeding these liquid resources is approximately 5.5% in a given hurricane season
  - If bonding is required, the FHCF would <u>not</u> need to access the markets all at once in order to meet its reimbursement obligations
  - The FHCF is a highly rated credit with long-term debt ratings of Aa3/AA-/AA- which are higher than all but a few reinsurers (Berkshire Re, Mapfre Re, Ms Frontier Re, and Tokio Millenium Re)

FHCF Update: Bonding Capacity

Conclusion

- Negative: Because of the expanded size of the FHCF, it is more reliant on funding from the post-event bond market – measured in terms of total dollars needed to fulfill its maximum potential obligation – than it has ever been.

  - The ongoing global credit crisis has hampered the ability of all institutions, including the FHCF, to access the financial markets.

  - Based on estimates from its three senior managing underwriters, the FHCF could have a significant bonding shortfall after a large hurricane.

FHCF Update: Bonding Capacity

Conclusion

- Quote from AM BEST press release “**A.M. Best Comments on Insurers' Potential Exposure to the Florida Hurricane Catastrophe Fund” -** June 1, 2009

“Based on the revised claims-paying capacity recently released, as well as A.M. Best’s analytical judgment, coverage provided by the FHCF’s mandatory layer will be reduced by 12.5% in A.M. Best’s assessment of risk-adjusted capitalization. Based on the October 2008 estimated claims-paying capacity, this reduction was previously 17%. The improvement largely reflects the increased cash position of the FHCF. Given the lack of funding regarding the Temporary Increase in Coverage Limits (TICL), no credit (100% reduction) will be provided for this layer. A.M. Best believes that reducing the amount of coverage provided via the FHCF and relating it to the projected borrowing capacity represents a more accurate view of overall risk-adjusted capitalization. The FHCF has substantial liquid resources of $7.96 billion available to it.”

- Coverage provided by FHCF mandatory layer reduced by 12.5% when calculating BCAR
- Coverage for TICL will be reduced 100% - no credit provided for the layer

FHCF Update: Bonding Capacity

Questions?

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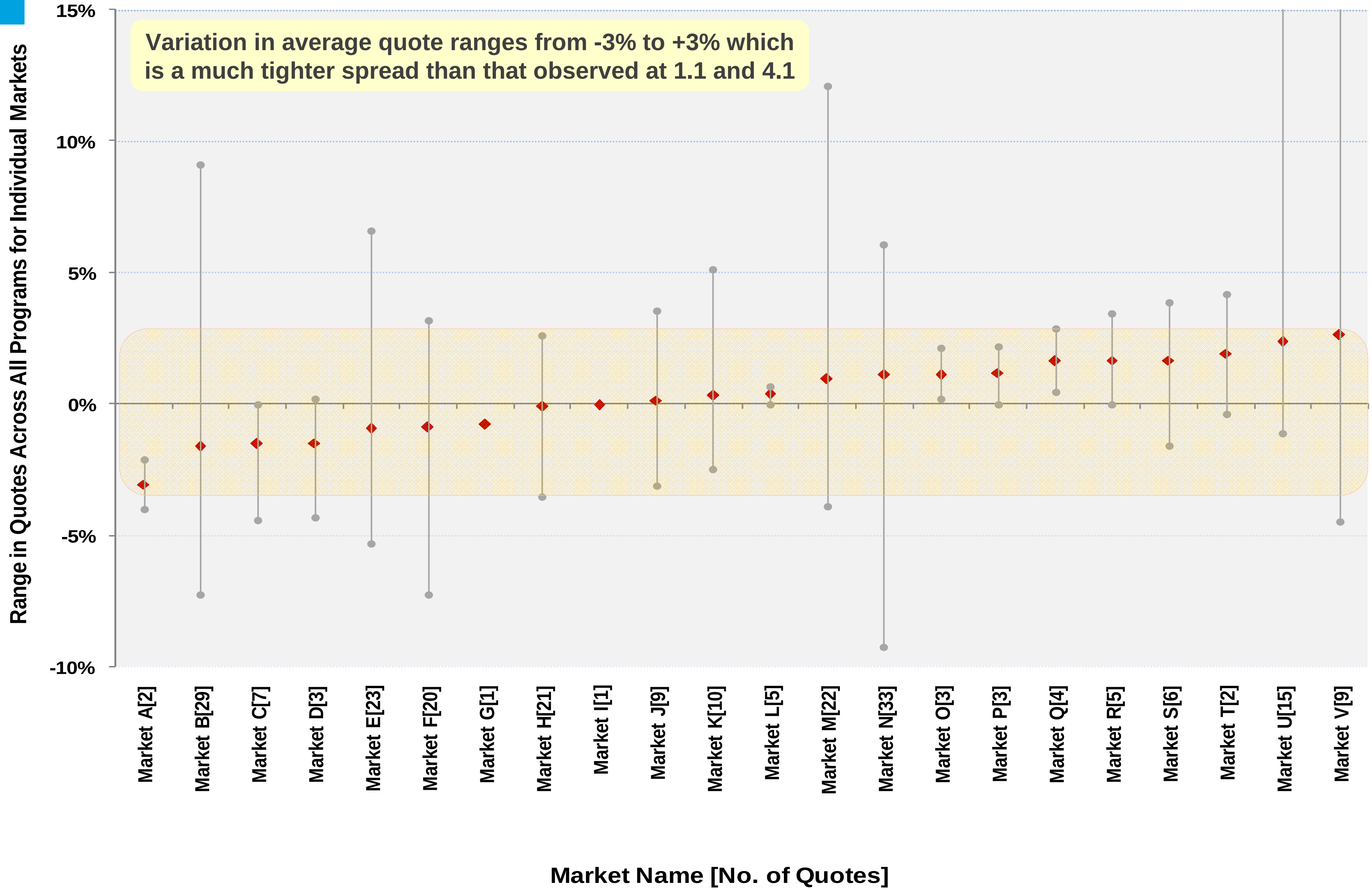
Florida Reinsurance Market Update

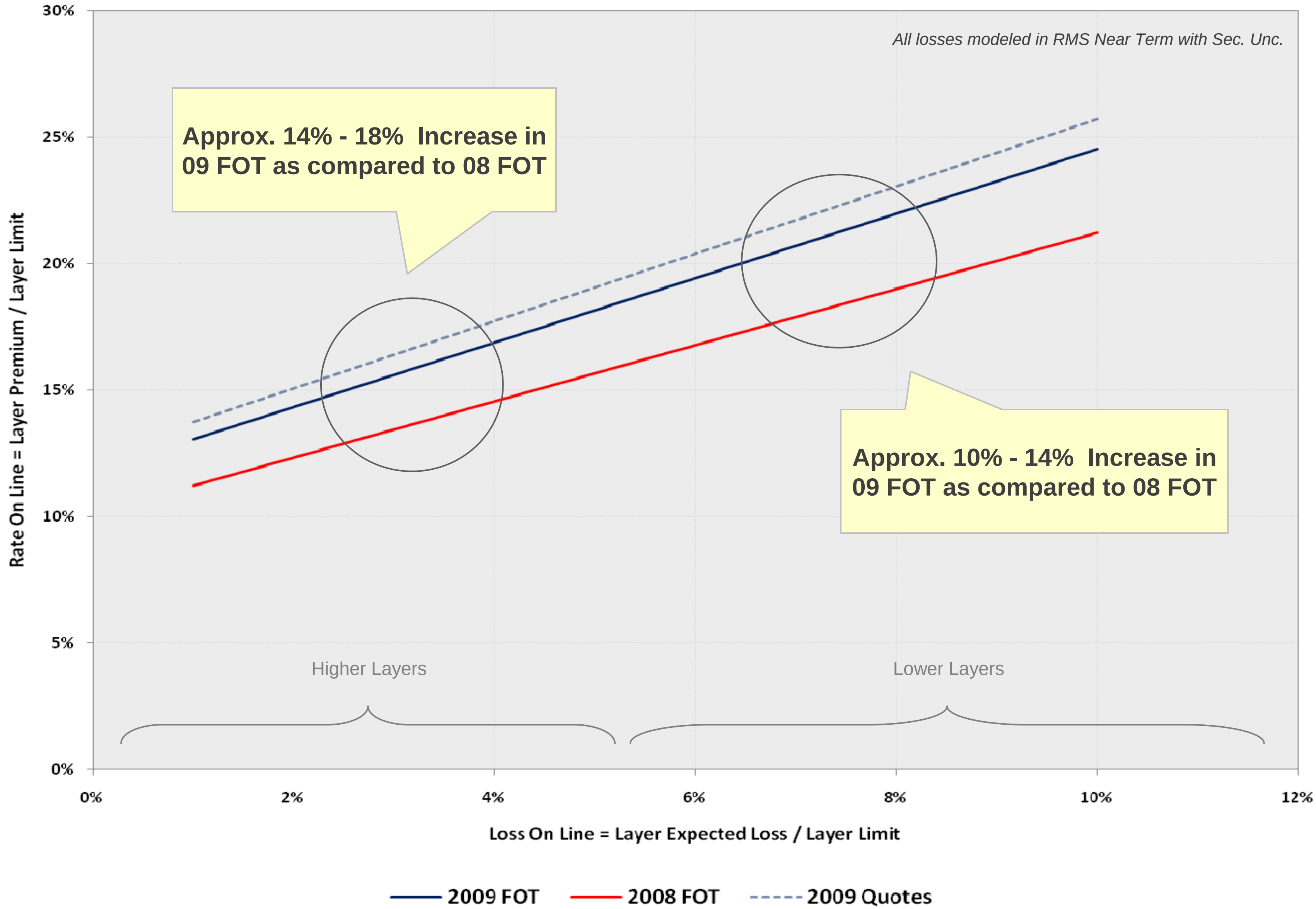
Market Quoting Behavior – All Florida Clients



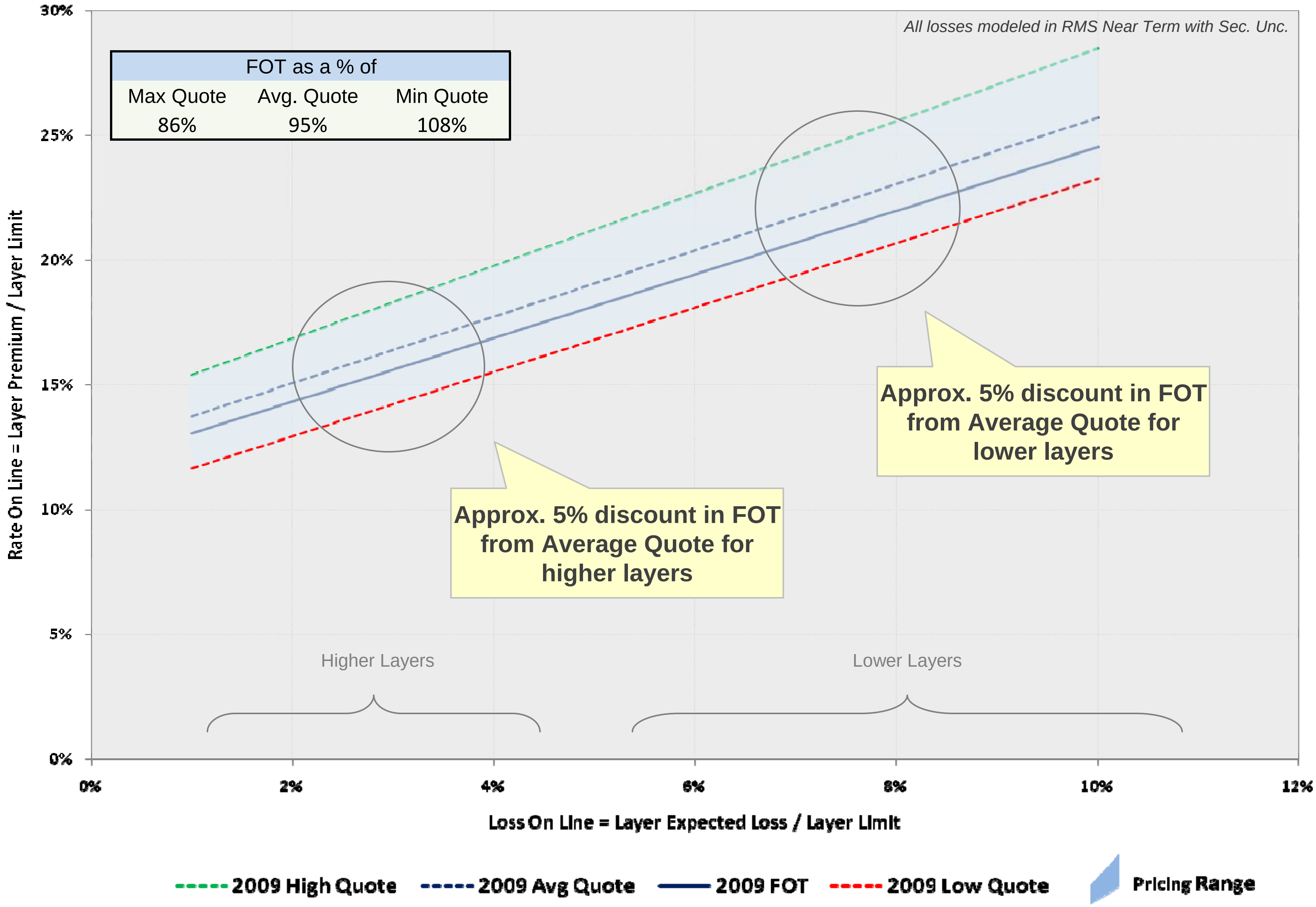
Glossary

- Rate on Line (ROL) – Deposit premium divided by treaty limit
- Loss on Line (LOL) – Expected loss divided by treaty limit

2009 Risk Adjusted Pricing Florida Clients – '09 FOT vs. '08 FOT



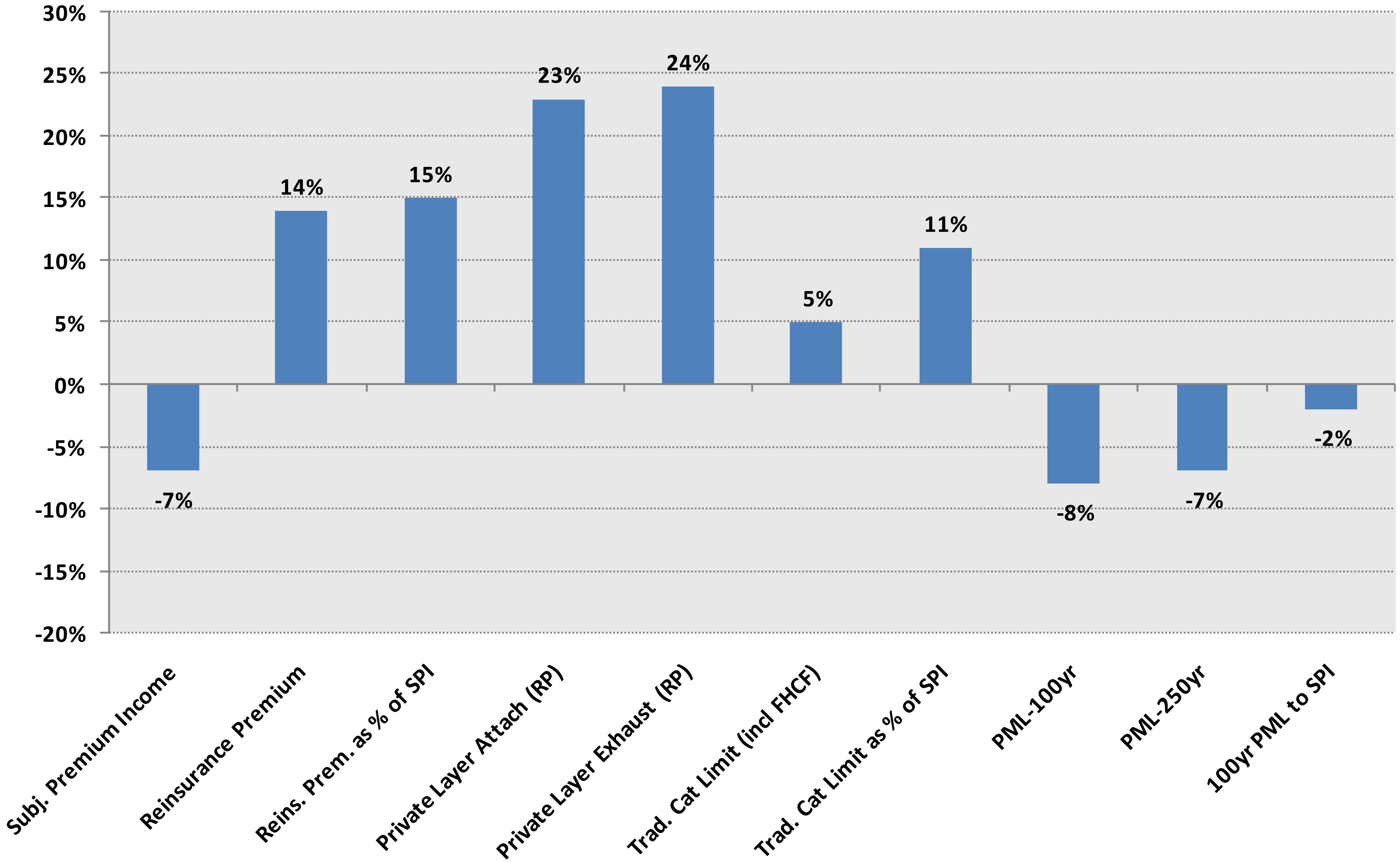
2009 Risk Adjusted Pricing Florida Clients – FOT vs. Quotes



TICL Replacement / Liquidity Options

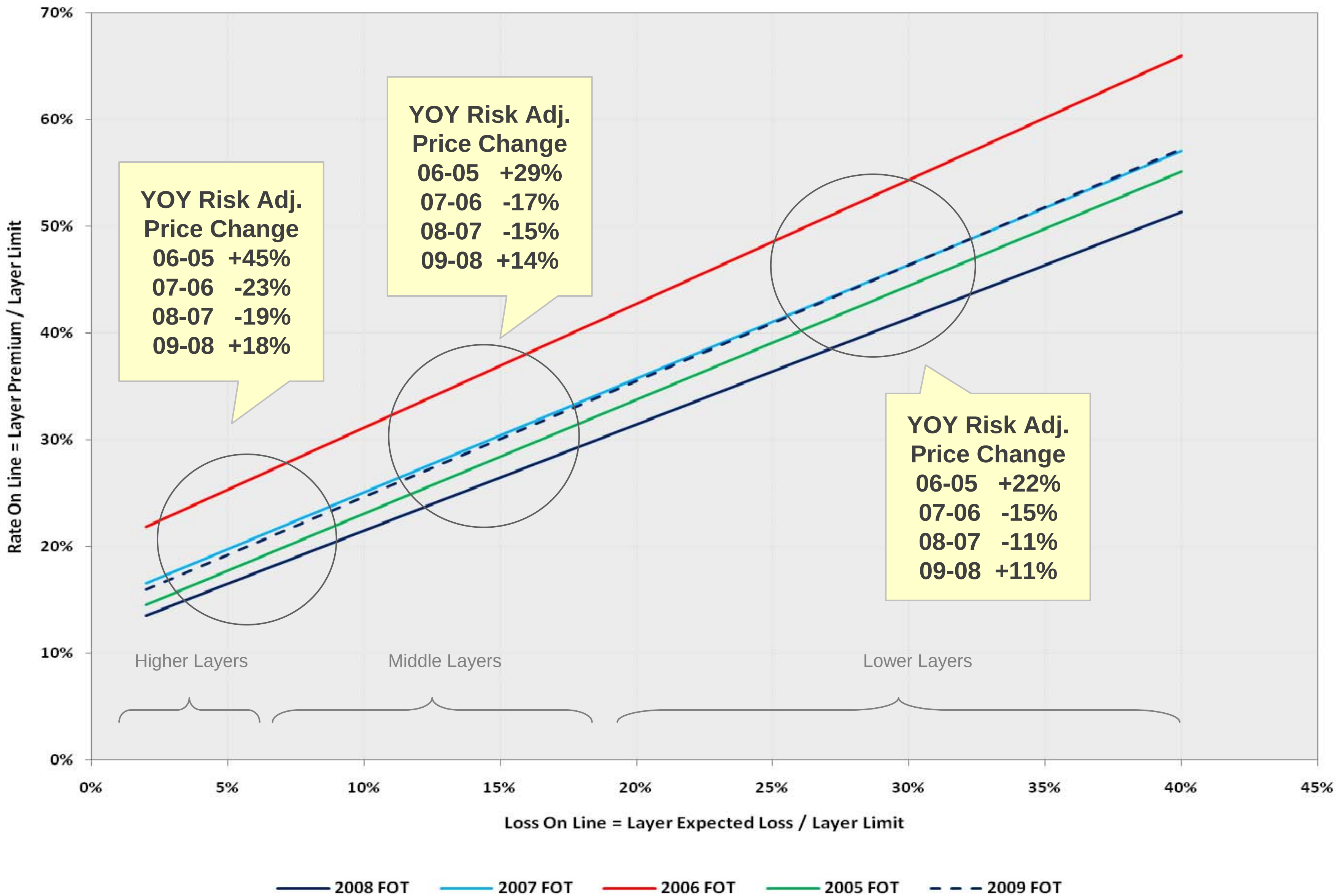
- Purchase TICL replacement cover
- Purchase TICL but secure LOC or similar financial product
- Purchase part of TICL but secure commercial market coverage for the additional exposure
- Purchase all of TICL but only deem a certain amount in place and purchase commercial market coverage for un-deemed portion
  - Addresses liquidity issues raised by Demotech
  - Allows for recoveries from commercial market reinsurers
    - If TICL does pay, a double recovery is realized
  - Paying for limit twice is expensive

Year Over Year Change – '09 vs. '08



All losses modeled in RMS Near Term with Sec. Unc.

Historical Year Over year Risk Adjusted Traditional Pricing – Florida Clients



Florida Reinsurance Market Update

Additional Information

- For more detailed information and the latest news on the Florida market
- Latest information and ideas in an accessible format to allow for better decision making

Florida Reinsurance Market Update

Questions?

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