

The Florida Forecast

Casualty Actuarial Society Seminar
Government in Insurance
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The Florida Forecast

A view of Florida's seasonal forecast as the state continues to be ravaged by the after effects of the 2004/2005 hurricanes , regulatory and legislative changes, a complicated political race including an oil spill in the gulf and new storms on the horizon

Some history on your panelists making forecasts for Florida

Judi Durdan-
Durdan Consulting-
Business Consultant to Towers Watson

John Rollins-
Rollins Analytics
Actuary for both the public and private sectors



The Florida Forecast

Where our forecasts come from---

Judi Durdan-
Durdan Consulting
Business consultant to Towers Watson
Pricing Mgr Aetna /COO First Floridian-TIC
Original JUA Board/FWUA Chairperson
Consultant to Guy Carpenter

John Rollins-
Rollins Analytics
Was Actuary for Citizens Property Insurance Company
Actuary for Farm Bureau and other carriers
Worked with start up companies
Former VP with AIR Worldwide

The Florida Forecast

This forecast includes the following:

- A look at the weather over the past few years-
-how we got here
- A look at the present conditions
-where we are today
- And a look at the radar-the watches and warnings for our future

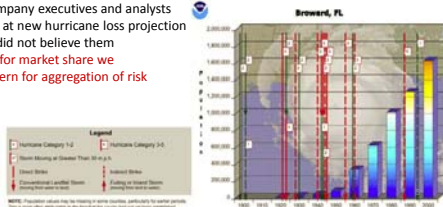


Any potential for blue skies?

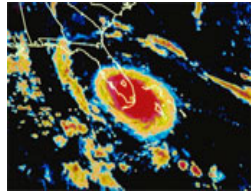
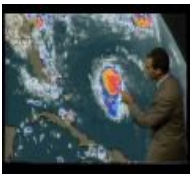


The weather then-circa 1992

- George Walker Bush was running for office
- Tom Gallagher was the insurance commissioner
- Florida experienced continued housing boom from early 80's
- Major carriers fighting for homeowners market share
- Fierce price competition- A homeowners policy for a \$150,000 coastal home was \$300
- Allstate and State Farm dominant
- Florida Windstorm Underwriting Association did not cover D,B,PB
- FWUA needed primarily for barrier islands
- Florida is growing twice as fast as the rest of the country
- Building was rampant in coastal communities/developers spurring growth & economy
- Insurance company executives and analysts were looking at new hurricane loss projection models and did not believe them
- In the chase for market share we lost our concern for aggregation of risk



And it happened----Floridian's just call it Andrew.....August 24, 1992



Little discussion about Models/ AAL/ There Was No FHCF/ Before BCEGS When we had Insurance Capital



Andrew set the stage for extraordinary change—

Legislators	} Managing a new reality
Industry	
Regulators	
Credit Mkts	

Enormous property losses/ carrier insolvencies/ Surplus held hostage/
 Extraordinary claim payment processing and response from carriers/
 Emergency Rules were enacted/
 Moratoriums/pricing controls/reliant reinsurance markets /
 Reduced available capital

.....a bleak forecast/ a few false starts but....

Legislators/Ins Dept/Industry come together—

- FHCF is developed to manage the reinsurance issue
- The JUA is formed as residual market for displaced customers
- Long time legislators play critical role
- Fundamentals remained in tact



Florida Property Insurance Environment continued to Evolve-

And at the same time carriers were facing a constantly changing environment
 As the models matured and altered the definitions of risk
 Clearing skies in the forecast

1993-----

- Unbridled growth of early 80's continued
- Larger long time carriers retreated from the market
- FWUA is expanded to all of D B PB
- Takeout mechanisms to reduce the JUA were developed
- Rates were controlled and higher than the voluntary market
- The MGA structure morphed to attract capital and new carriers
- Moratorium remains in place
- Study after study is made of the property market
- Wind rate is separated from AOP
- FHCF continues to develop capacity; new carriers bring capital
- Mitigation efforts are funded from FHCF-tax exempt status
- Spit out of wind and non wind rates



Florida Property Insurance Environment continued to Evolve-

Carriers were facing a constantly changing environment as the models were changed
 altering the definitions of risk

And then

- FWUA combined with the JUA to make Citizens-professional insurance personnel no longer a major part of the decision making process
- Deficits and assessment issues altered the residual market framework with ever increasing subsidies as rates failed to increase
- Increasing emphasis on Pre & post event residual market financing vs reducing pressure for development of proper rates
- Limited nature of FWUA being eroded with changes-provided option for Carrier to write business and remain in the state
- Person offered a take out policy could not remain in the JUA
- Depopulation credits provided FWUA take out business if policy retained




The development of the small carriers

The history


The potential/the dangers/the disasters

The real cause of the problems



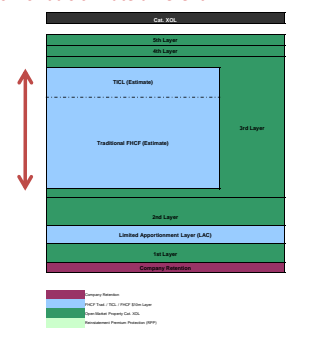
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How the Domestic Financials Work




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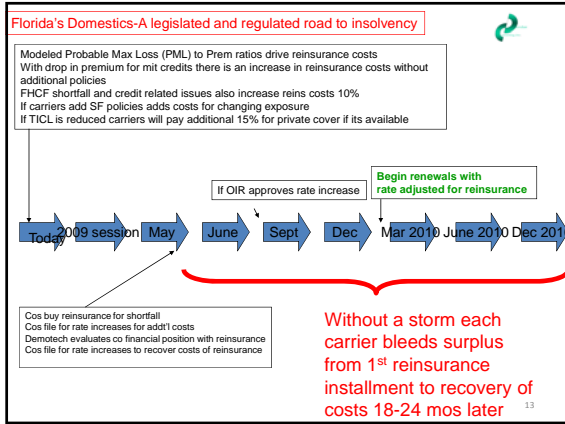
What makes Florida's climate different



The Florida Hurricane Catastrophe Fund and Private Reinsurance



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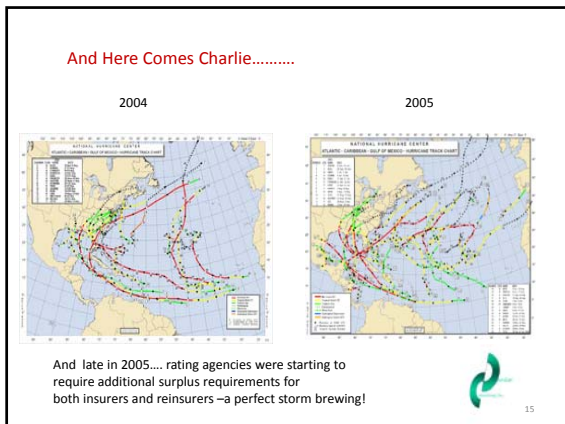
Florida Property Insurance Environment continued to Evolve-

With the 2000 elections--55 representatives and 11 senators could not run for re-election.

Following 2002 election in 2003, The Florida Cabinet Changes its structure

- Governors office gets additional power
- Cabinet now has 4 members
- CFO is Named
- Insurance Commissioner no longer elected
- McCarty gets the post

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Poe Insurance companies go into liquidation

During the 2006 session (early May) there was good and bad news for the industry
-(We only had TS Alberto and Ernesto); Jeb Bush was still in power
-Poe went down, and business was moved to Citizens
-Many other new companies survived

Legislative results were prognostications of weather changes to come---

- Changes re replacement cost/matching statute
- Pressure for quicker payment of claims
- No cap on new or re-opened claims after an event
- Free Inspections for mitigation credits –MSFH Program
- Arbitration proposals

The first glide path ideas for Citizens rates to make them less competitive

A surplus notes program to encourage capital investment in the industry

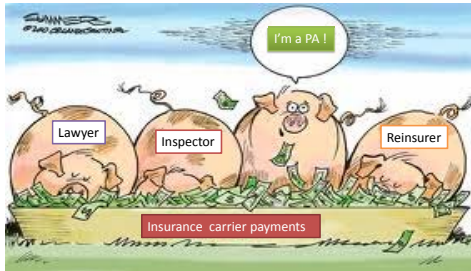
And Then Here Comes Charlie Again!



John Rollins Slides begin here

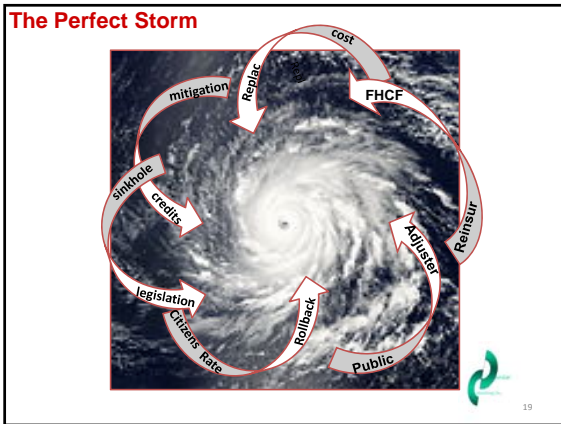



With calm winds for the last 4 years –looks what is happening!



Florida insurers face devastating losses in 2009 with no storms!







And which way do you think the wind is blowing?

Alex Sink, current CFO



STAND WITH CONSERVATIVE OUTSIDER
RICK SCOTT
TAKE ACTION TODAY!

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Candidates for CFO



Atwater



Ausley

Candidates for Attorney General




Bondi




Gelber

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And The Agriculture Commissioner Changes as well




Putnam



Maddox

The new cabinet faces tough issues:

- addressing the impact of Obama health care and the hit to the budget
- addressing revenue losses from the credit crunch and housing decline
- addressing an education system requiring improvements with cost cuts
- to try and attract capital to all business sectors of the state
- mitigating taxes on individuals and businesses
- addressing water and environmental issues
- and fixing a destroyed property insurance market



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Our conclusions:

We have met the enemy.....


Florida's political environment is in the same state as the country-
It needs an overhaul!!!

Florida has responded as to its hurricane problems

- finding blame
- developing over corrective actions
- developing unintended consequences
- developing the next set of problems
- encouraging fraud


What is needed-

- An emphasis on free market with some regulation
- Incorporation of professional business practices on all levels-regulatory and on boards



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Oh here are some more.....



I do sinkhole
Repair ha ha!

Lawyer

Tile repair
Anyone?



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No I'm a PA!!!!