

Presentation to

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**CASUALTY ACTUARIAL SOCIETY**  
**2007 Spring Meeting**  
**Lake Buena Vista, Florida**

**The FHCF – Contender or  
Pretender?**

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*June 18, 2007*

**RAYMOND JAMES**

# **Introduction**

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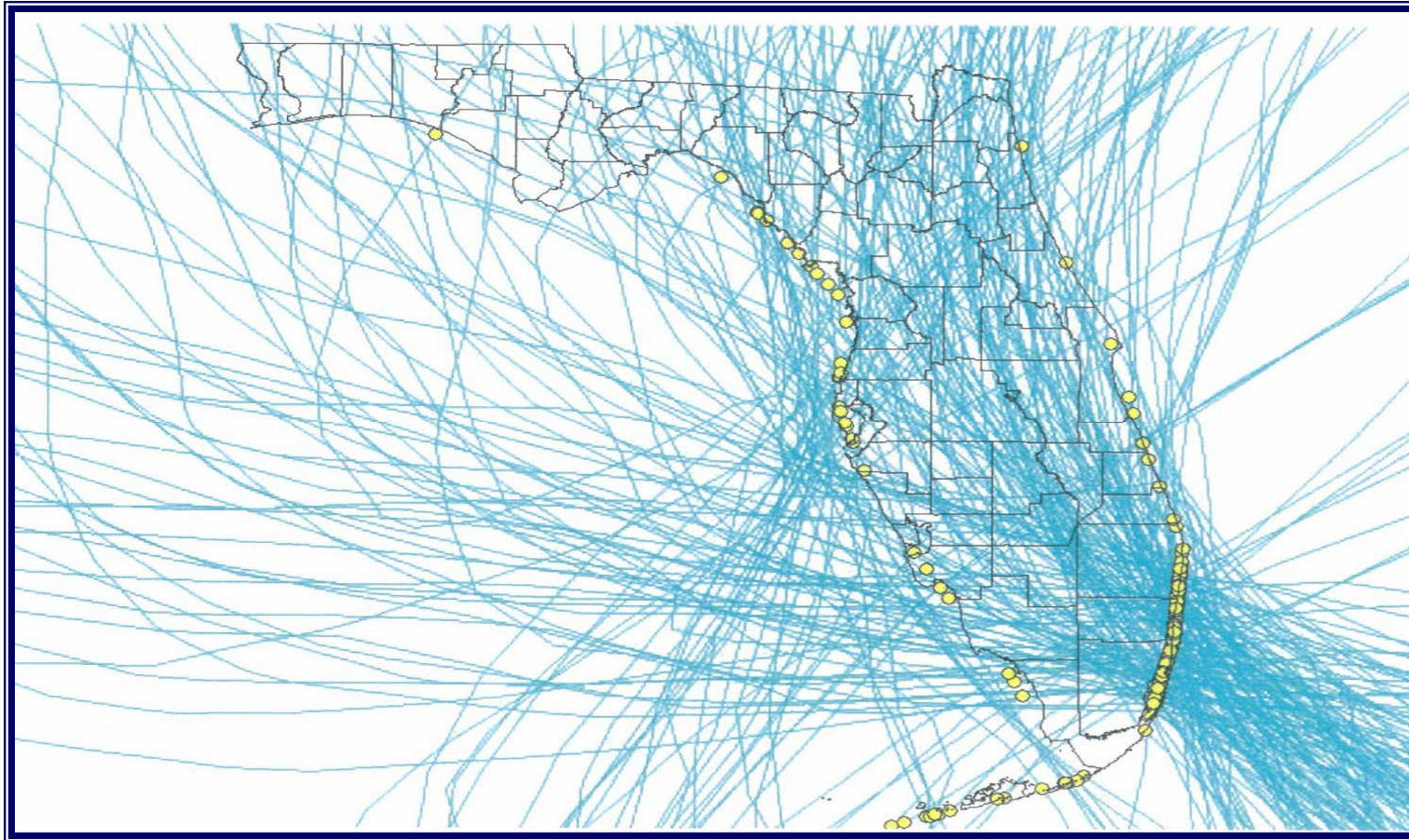
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# **A Brief Digression:**

## **Why We Are Where We Are**

# Why – Part I

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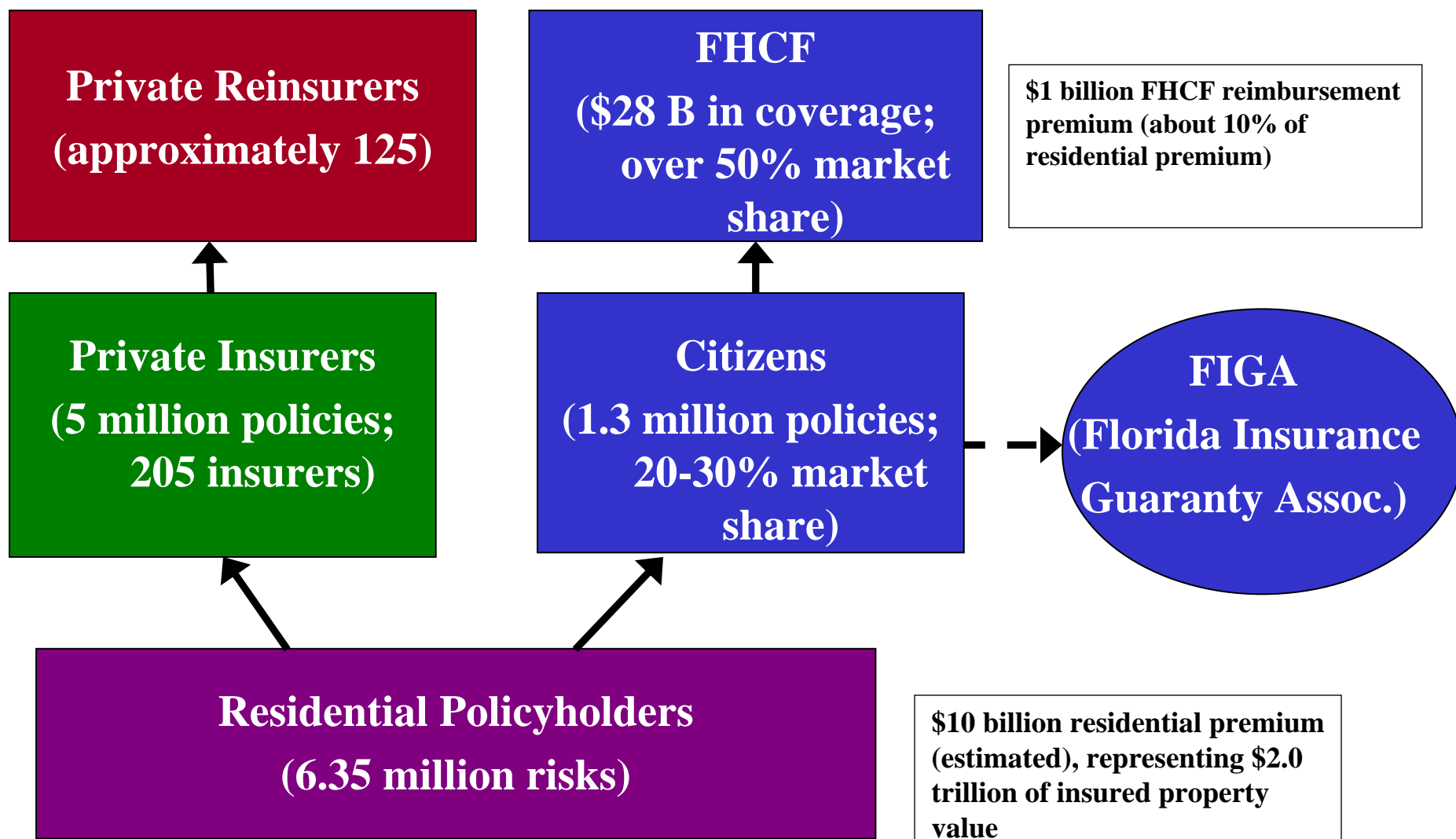


# Why – Part II

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# Florida Residential Property Insurance Market



# FHCF Overview



- A State Tax-Exempt Trust Fund created in November 1993 by the Florida Legislature for the purpose of providing a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic hurricane losses in order to provide additional insurance capacity for the state.
- Serves as a catastrophe reinsurer for residential property insurers.
- Mandatory for insurers writing residential property insurance in Florida.
- Provides \$50 billion of reinsurance capacity on a multi-year basis.
- Acts as a low cost, efficiently managed, state controlled entity.
- Provides reinsurance at one-fourth to one-third the cost of private reinsurance.
- Helps keep residential insurance rates down.

# FHCF – Has it Worked?

Year	Premium Revenue (\$ in millions)	Savings to Florida Policyholders (\$ in millions) <sup>1</sup>	Hurricane Losses (\$ in millions)	Assessments Levied (\$ in millions)
2000	438	657	-	-
2001	439	659	-	-
2002	478	717	-	-
2003	498	747	-	-
2004	488	732	-	-
2005	617	926	3,750	-
2006	735	1,103	4,700	1,350
<b>Total</b>	<b>3,693</b>	<b>5,540</b>	<b>8,450</b>	<b>1,350</b>

**Return on Investment for Florida Policyholders 370%**

<sup>1</sup> Assumes FHCF cost is 1/3 of private reinsurance cost and 50% of premiums are ceded to reinsurers



# FHCF – Before and After

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Description	2006	2007
FHCF Capacity	\$ 15 Billion	\$28 Billion
Top of the FHCF	1:39.5 Years	1:50 Years
Bonding Required	\$ 14.02 Billion	\$26.02 Billion
Annual Assessment Required (\$)	\$0.99 Billion	\$1.83 Billion
Annual Assessment Required (%)	2.82%	4.89%

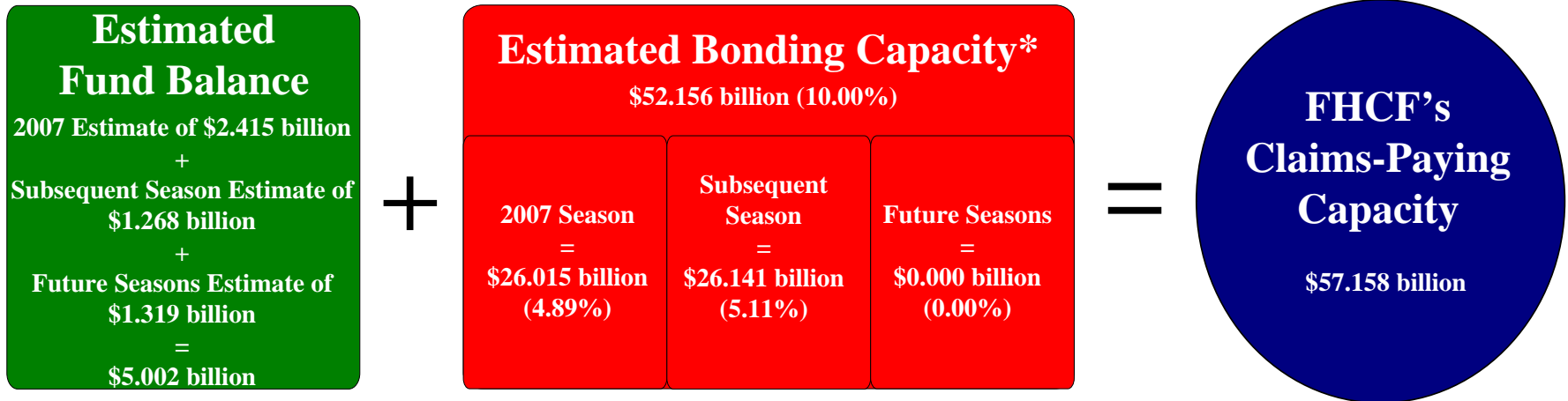
**Can the FHCF Deliver on its Obligations?**

# FHCF Multi-Year Claims-Paying Resources Overview

The FHCF is responsible for reimbursement of insured hurricane losses to its participating members only to the extent of its *Fund Balance*, *Reinsurance Proceeds* (if any) and *Maximum Bonding Capacity* up to a limit of \$28.43 B per season which is subject to adjustment over time.

The FHCF resources available to reimburse Fund participants include:

- 1) Accumulated reimbursement premiums
- 2) Investment Income
- 3) Post – event bond proceeds (secured by emergency assessments)



\* Utilizes a maximum of 9% of total emergency assessments until 2012 when the Series 2006A Bonds reach final maturity.

# Can the FHCF Fight?

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## Factors Arguing Against

- Unprecedented Size
- Uncertain market conditions after large event

## Factors Arguing In Favor

- May not need to be done all at once
- FHCF will have market to itself in many circumstances
- Size of assessment manageable
- FHCF has proven market access

# Insured Losses in Florida 2004-2005.....Who Paid

Storm	Citizens'				Net Governmental			
	Florida Insured Losses	Losses (Net of FHCF)	%	FHCF Losses <sup>1</sup>	%	Losses	%	
Charley	\$ 10,158,405	\$ 568,648	6%	\$ 1,912,068	19%	\$ 2,480,716	24%	
Frances	7,952,636	1,151,133	14%	\$ 1,268,088	16%	2,419,222	30%	
Ivan	3,314,848	852,718	26%	\$ 345,051	10%	1,197,768	36%	
Jeanne	<u>3,634,646</u>	<u>481,871</u>	<u>13%</u>	<u>262,123</u>	<u>7%</u>	<u>743,994</u>	<u>20%</u>	
<b>2004 TOTAL</b>	<b>\$ 25,060,535</b>	<b>\$ 3,054,370</b>	<b>12%</b>	<b>\$ 3,787,330</b>	<b>15%</b>	<b>\$ 6,841,700</b>	<b>27%</b>	
Dennis	\$ 297,399	\$ 102,123	34%	\$ 373	0%	\$ 102,496	34%	
Katrina	853,000	213,994	25%	\$ 306	0%	214,300	25%	
Rita	25,243	8,188	32%	\$ 0	0%	8,188	32%	
Wilma	<u>9,659,383</u>	<u>2,417,977</u>	<u>25%</u>	<u>4,273,797</u>	<u>44%</u>	<u>6,691,774</u>	<u>69%</u>	
<b>2005 Total</b>	<b>\$ 10,835,025</b>	<b>\$ 2,742,282</b>	<b>25%</b>	<b>\$ 4,274,477</b>	<b>39%</b>	<b>\$ 7,016,758</b>	<b>65%</b>	
<b>2004 - 2005 Total</b>	<b>\$ 35,895,560</b>	<b>\$ 5,796,652</b>	<b>16%</b>	<b>\$ 8,061,807</b>	<b>55%</b>	<b>\$ 13,858,459</b>	<b>39%</b>	

**FL quasi-governmental entities paid almost 40% of 2004-2005 losses**

# Assessments 2004-2005.....

## Florida Assessments from 2004-2005 Storms

	2004		2005	
	\$ in Millions	%	\$ in Millions	%
Citizens	\$ 516	6.85% <sup>3</sup>	\$ 1,766	3.47% <sup>1</sup>
FHCF	0	0	1,350	1.00% <sup>2</sup>
FIGA	0	0	400	4.00% <sup>3</sup>
<b>Total</b>	<b>\$ 516</b>	<b>6.85%<sup>3</sup></b>	<b>\$ 3,516</b>	<b>8.47%<sup>4</sup></b>

<sup>1</sup> Includes 1-year assessment of 2.07% and annual assessment of 1.4% for 10 years

<sup>2</sup> Assessment was levied 1% per year for 6 years

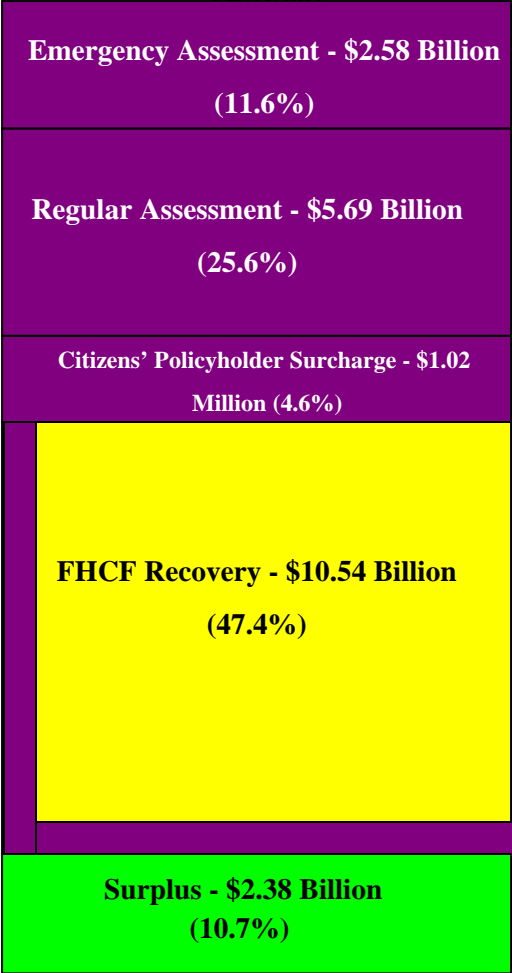
<sup>3</sup> Assessment was levied for 1-year only.

<sup>4</sup> Includes 1-year assessment of 6.07% and annual assessment of 1% and 1.4% for 6 and 10 years respectively.

# Citizens and FHCF 100-Year PML Event – Where Would the \$ Come From?

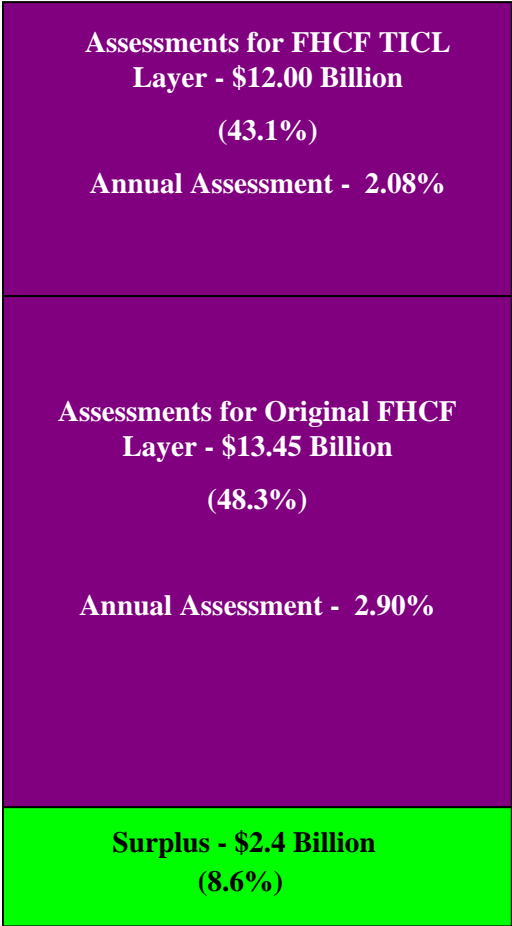
## Citizens

100 Year PML - \$22.21 Billion (As of 12/31/06)



(Not to scale)

## FHCF



# What They Are Saying

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"I am quite happy to see this business under government control."

--Jürgen Gräber, Executive Board Member, Hannover Re

"Which credit risk would you rather bear..... the state of Florida.....  
or that of an A- rated reinsurer domiciled outside the U.S.?"

----- William Wilt, Morgan Stanley Insurance Analyst

"I am writing to let you know that recent legislative and regulatory  
actions in Florida have created an untenable property insurance  
market in your state."

---Robert G. Davis, Chairman and CEO, USAA in a letter to  
policyholders

"Money for Nothing and your Chicks for Free"

----- Florida Insurance Lobbyist



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