

CATASTROPHE MODELS: A REGULATORY VIEWPOINT



Presented by:

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OVERALL VIEW

- **State-of-the-art**
- **Uses in ratemaking**
 - Overall rate level
 - Territory relativities
 - Deductible relativities
 - Wind mitigation credits
 - Reinsurance recoveries



NEED FOR TRANSPARENCY

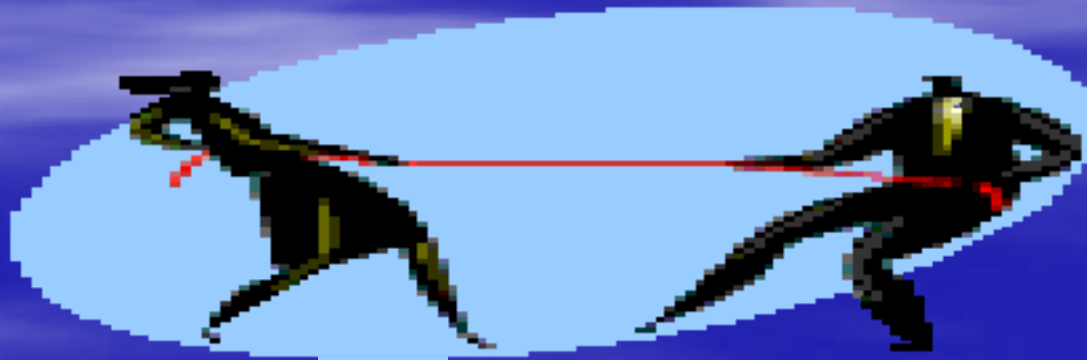
- **LA Bulletin 99-02**
- **On-site visits to modelers**
- **Florida Commission on Hurricane Loss Projection Methodology**
- **NAIC national cat model initiative**



LA BULLETIN 99-02

“COMPUTER MODEL INTERROGATORIES”

- **Part A – Filer**
 - **Insurer certification**
 - **Insurer information**
 - **Modeled provision in the rates**



LA BULLETIN 99-02

“COMPUTER MODEL INTERROGATORIES”

- **Part B – Modeler**
 - **Modeler certification**
 - **Model evaluation**
 - **Model validation**
 - **Model sensitivity**



LA BULLETIN 99-02

“COMPUTER MODEL INTERROGATORIES”

- Additional questions for Filer (“switches”)
 - “View”
 - Risk load
 - Demand surge
 - Storm surge (10% or)



LOUISIANA CONCERNS

- Short-term and medium-term views
- Consistency between models
- Stability over time

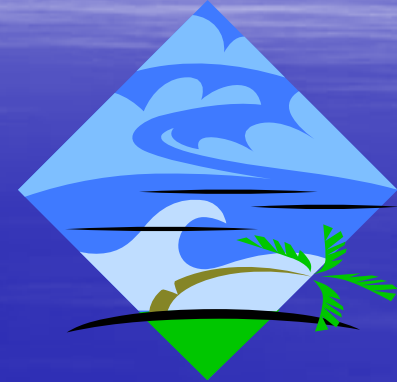


TERRITORY RATEMAKING

- Cat potential varies significantly within state
- Territory *a priori* non-cat expected loss ratio
 - Do not use:
 - Statewide non-cat loss ratio
 - Use:
 - Starting point of 100.0%
 - MINUS Statewide expense ratio
 - MINUS Territory-specific profit provision
 - MINUS Territory-specific reinsurance/risk provision
 - MINUS Territory-specific modeled cat provision

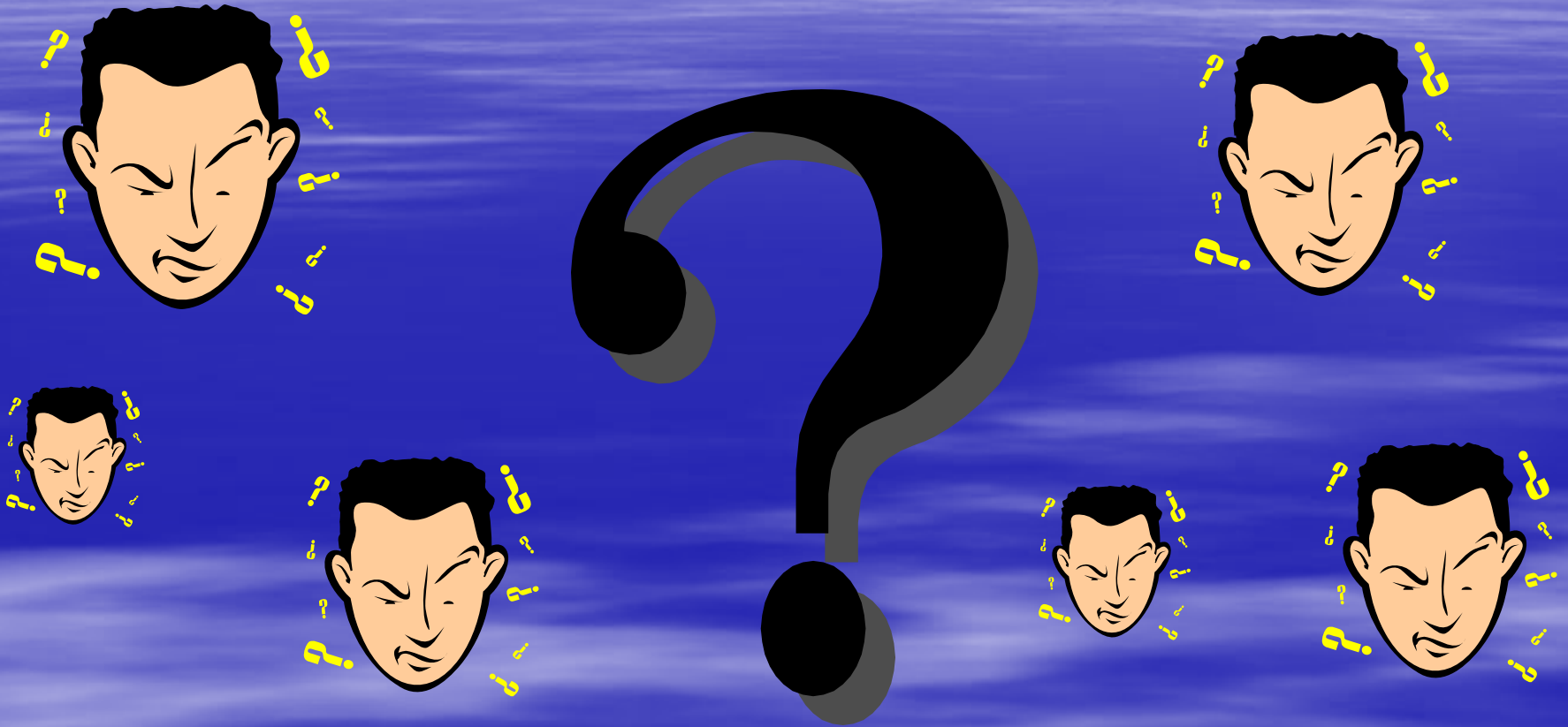


WIND MITIGATION



- **LA R.S. 22:1426**
- **LA Regulation 94**
- **Use of models for wind mitigation credits**
- **Less wind → Less wind to be mitigated**
 - Credits relative to “wind plus non-wind” →
large geographic variation
 - Credits relative to wind →
small or no geographic variation

QUESTIONS?



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