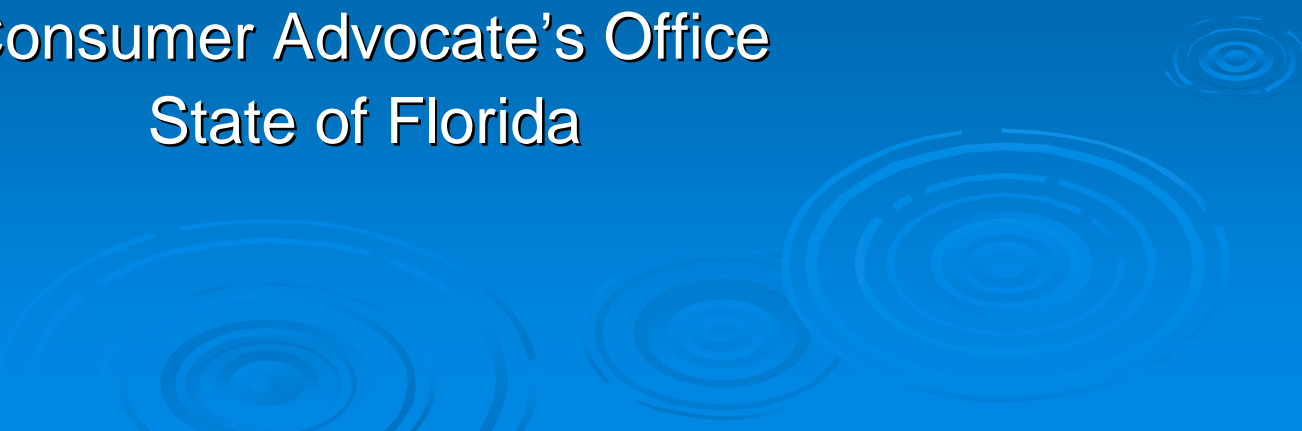


Hurricane Loss Mitigation Committee Hearing February 22, 2007

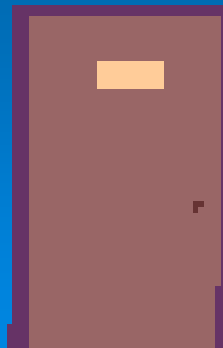
Stephen A. Alexander, FCAS, MAAA, MBA
Actuary
Consumer Advocate's Office
State of Florida



How do we make sure that
mitigation discounts
do not result in
rate level increases?

Mitigation
Discounts

Rate
Increases



Mitigation Impacts

- Front Door:
 - Premium Discounts
- Back Door:
 - 1) Catastrophe (Cat) loads (estimated average annual hurricane losses).
 - 2) Net cost of reinsurance.

Need Mitigation Discount Consistency

- Need mitigation discount consistency between:
 - Premiums,
 - Cat loads, and
 - Net cost of reinsurance.
- Use of 5 different hurricane simulation models will cause inconsistencies.

Public Model

- The Public Model should be upgraded to include loss mitigation.
- Rate filers should be required to submit complete mitigation information to OIR to input into the Public Model.

Private Models

- Insurers should certify that complete mitigation data has been input into all private models used in rate filings, and
- Insurers should certify in rate filings:
 - every option available for each model used (demand surge, storm surge, etc.), and
 - the options actually selected for each model.

Net Cost of Reinsurance

➤ Reinsurance premiums minus average annual expected reinsured hurricane losses.

➤ Reinsurance Premiums = \$100,000,000

Average Annual Hurricane Reinsured Losses

= \$15,000,000

Net Cost of Reinsurance = \$85,000,000

➤ Net cost of reinsurance based on computer model.

FHCF

- Insurers are now required to submit some mitigation data on each individual insured home to FHCF to be used to calculate FHCF premium.
- Consider a rule or legislation to require FHCF to include in its annual rate report the estimated average annual hurricane losses for each insurer by layer of loss.
- OIR and Consumer Advocate can use above info to check the reasonability of Cat loads and net cost of reinsurance in rate filings of each insurer.

receive credits from their direct insurance writers:

BCEG Code	FHCF BCEG Credit
00	None
01 - 03	12%
04 - 07	8%
08 - 09	4%
10	None
FHCF Default: 50*	None

*See default eligibility requirement in second paragraph of this section.

With respect to buildings which have been individually graded and certified as "Grade 1" for windstorm/hail, and are eligible for a BCEG credit from the FHCF, such exposure may be reported to the FHCF with BCEG credit code "01."

14. Florida Building Code Indicator

This code is used to identify exposure units that meet the Florida Building Code standards effective March 1, 2002. Enter the appropriate code from the table below. While this field will not impact your 2006/2007 premium calculation, it will be reviewed under the SBA examination program and is intended to be a rating factor beginning with the 2007/2008 premium calculation.

Florida Building Code Indicator	FHCF Code
Meets 2002 Florida Building Code	1
Does not Meet Florida Building Code or Unknown	2

15. Structure Opening Protection

Enter the appropriate structure opening protection code from the table below. While this field will not impact your 2006/2007 premium calculation, it will be reviewed under the SBA examination program and is intended to be a rating factor beginning with the 2007/2008 premium calculation.

Structure Opening Protection	FHCF Code
None or Unknown	0
Basic Shutters	1
Hurricane or Engineered Shutters or FBC-Equivalent*	2

* Requires that all openings must be protected with impact resistant coverings, impact resistant doors, and/or impact resistant glazing that meets the requirements of one of: SSTD 12; ASTM E 1886 and ASTM E 1996, Miami-Dade PA 201, 202, and 203; or Florida Building Code Testing Application Standards (TAS) 201, 202, and 203.

16. Roof Shape

Enter the appropriate roof shape code from the table below. While this field will not impact your 2006/2007 premium calculation, it will be reviewed under the SBA examination program and is intended to be a rating factor beginning with the 2007/2008 premium calculation.

Roof Shape	FHCF Code
Hip, Mansard, or Pyramid	1
Gable, Other, or Unknown	2

17. Roof-Wall Connection

Enter the appropriate roof-wall connection code from the table below. While this field will not impact your 2006/2007 premium calculation, it will be reviewed under the SBA examination program and is intended to be a rating factor beginning with the 2007/2008 premium calculation.

Roof-Wall Connection	FHCF Code
Anchor Bolts, Hurricane Ties, Clips, Single Wraps, Double Wraps or Structurally Connected	1
Nails, Toe Nails, Screws, Gravity, Friction, Adhesive Epoxy, Other, or Unknown	2

18. Roof-Deck Attachment

Enter the appropriate roof-deck attachment code from the table below. While this field will not impact your 2006/2007 premium calculation, it will be reviewed under the SBA examination program and is intended to be a rating factor beginning with the 2007/2008 premium calculation.

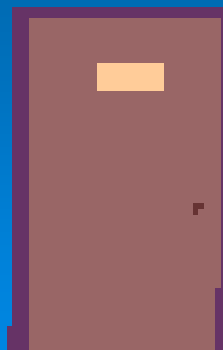
Roof-Deck Attachment	FHCF Code
Reinforced Concrete Roof Deck	4
Other or Unknown	8

Summary

- The Public Model should be upgraded to include loss mitigation.
- Rate filers should be required to submit complete mitigation information to OIR to input into the Public Model.
- Insurers should certify that complete mitigation data has been input into all private models used in rate filings.
- Insurers should certify in rate filings:
 - every option available for each model used (demand surge, storm surge, etc.), and
 - the options actually selected for each model.
- Consider a rule or legislation to require FHCF to include in its annual rate report the estimated average annual hurricane losses for each insurer by layer of loss.

Make sure that mitigation discounts
in the front door do not result in
rate level increases out the back
door.

Mitigation
Discounts



Rate
Increases



Copies

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