SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/CS/SB 2488

SPONSOR: Governmental Oversight and Productivity Committee, Banking and Insurance Committee, and Senator Alexander

SUBJECT: Florida Hurricane Catastrophe Fund

DATE: April 13, 2004 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Knudson	Deffenbaugh	BI	Fav/CS
2.	Wilson	Wilson	GO	Fav/CS
3.			FT	
4.			AGG	
5.			AP	
6.				

I. Summary:

The Florida Hurricane Catastrophe Fund (FHCF or fund) was created after Hurricane Andrew as a form of mandatory reinsurance for residential property insurers. The fund is administered by the State Board of Administration (SBA) and is a tax-exempt source of reimbursement to property insurers for a selected percentage of hurricane losses above the insurer's retention (deductible). The insurer's retention is increased annually by the percentage increase in the fund's exposure (due to increased property value or coverage changes). The fund derives its revenue from actuarially determined "reimbursement premiums" paid by insurers. It also has the ability to levy assessments against all property/casualty insurance premiums (other than workers' compensation) when reimbursement premiums and other fund resources are insufficient to cover the fund's obligations. Annual assessments (which have never been levied) are capped at 4 percent of premium with respect to losses from any one storm season and a maximum of 6 percent of premium to fund multiple storm seasons. Payouts to insurers are capped at $11 billion for losses from any one storm season, with provision for a higher initial season cap after the fund is capable of paying $22 billion to cover losses from two storm seasons. By providing an additional source of reinsurance to what is available in the private market, the law enables insurers to write more residential property insurance in the state than could otherwise be written, and since it is significantly less expensive than private reinsurance, it also acts to lower residential property insurance premiums for consumers.

The bill makes the following changes:

Increases the Capacity of the FHCF to $15 billion for both the initial and subsequent storm seasons, and calls for capacity to be adjusted annually based upon the percentage change in

exposure of the fund from the previous contract year. The capacity cannot grow by an amount greater than the amount of cash received by the fund in the previous year. Effective June 1, 2005.

Lowers the Insurer Retention to $4 billion, after which the new retention would be adjusted based upon the reported exposure from the prior contract. Effective June 1, 2005.

Increases the FHCF Assessment Authority against property and casualty insurers from 4 to 6 percent for any single year's storm, and from 6 to 10 percent for multiple storm seasons, in order to fund the extra capacity described above.

Includes surplus lines policies in the FHCF assessment base, to be collected by surplus lines agents and then remitted to the Florida Surplus Lines Service Office.

Excludes medical malpractice premiums from the FHCF assessment base for the purpose of helping to control the costs of medical malpractice insurance premiums for consumers.

Other changes include:

- Allowing insurers to collect a surcharge from policyholders to pay for an emergency assessment without making a rate filing with the Office of Insurance Regulation.
- Requiring insurers to submit to the Office of Insurance Regulation a rate filing regarding covered policies that reflects the overall rate reduction or increase due to the provisions of the bill.
- Clarifying "prior fiscal year" for mitigation funding.
- Permitting insurers to collect assessments from policyholders in the event of an emergency assessment by the FHCF.
- Allowing higher exposure amounts for insurers who are eligible to opt out of the FHCF.
- Allowing the purchase of reinsurance from parties approved by the Office of Insurance Regulation.
- Allowing for interest to be charged on delinquent assessments.
- Excluding excess policies and deductible buy-back policies by rule.
- Clarifying provisions regarding excess recoveries to Citizens Property Insurance Corporation.
- Clarifying and expanding the coverage for additional living expenses.
- Defining "corporation."
- Clarifying provisions regarding the publication of borrowing capacity estimates and notification to insurers.
- Clarifying that "examinations," not "audits," are used to validate the accuracy of exposures and losses reported to the FHCF.
- Deleting language requiring that recoveries from reinsurance and the FHCF are not to exceed 100 percent of the insurer's losses.
- Adding language to clarify that emergency assessments can be used for debt service coverage.

This bill amends section 215.555 of the Florida Statutes.

II. Present Situation:

Background and Purpose of the Florida Hurricane Catastrophe Fund

A hurricane falls upon land in Florida once every two years, on average. A severe hurricane (Category 3 or higher with over 110 mile per hour winds) makes landfall in Florida on average once every four years. On August 24, 1992, Hurricane Andrew (a Category 5 storm, the most severe classification for a hurricane) struck South Florida with winds well over 150 mph. The storm killed 39 people, caused $20-$30 billion in damage, and caused the insolvency of 11 insurers in Florida.

In the aftermath of Hurricane Andrew, the Legislature created the Florida Hurricane Catastrophe Fund (FHCF or fund) to provide a mandatory form of reinsurance for residential property insurers in the state. The law was designed to provide additional reinsurance capacity and thus enable insurers to continue to write residential property insurance in Florida. The FCHF is administered by the State Board of Administration (SBA) and is a tax-exempt source of reimbursement to property insurers for excess losses due to hurricanes. By providing an additional source of reinsurance to what is available in the private market, the law enables insurers to write more residential property insurance in the state than could otherwise be written, and since it is significantly less expensive than private reinsurance, it also acts to lower residential property insurance premiums for consumers.

Premiums Charged to Insurers for Fund Coverage

The SBA is required to enter into a reimbursement contract with each residential property insurer, and to establish the premiums that insurers must pay for their coverage from the fund. In doing so, the SBA must select an independent consultant to develop a formula for determining the actuarially indicated premium and must be approved by unanimous vote of the SBA. Hurricane loss projection models found to be accurate and reliable by the Florida Commission on Hurricane Loss Projection Methodology must be used by the FHCF in establishing its premiums.[1] The annual premium charged to insurers generally represents the average annual expected hurricane loss to be paid by the fund, plus annual administrative expenses of the SBA in operating the fund, and annual legislative appropriations made from the fund for hurricane loss mitigation purposes, the total of which is then discounted to present value based on anticipated investment income.

The premiums that insurers are required to pay the FHCF are significantly lower than comparable levels of reinsurance in the private market, primarily due to its tax-exempt status, low administrative costs, and lack of any profit or risk-load factor in its rates (which are “pure loss cost” rates, based on model projections, plus operating expenses). The SBA estimates that coverage from the FHCF costs insurers between one-quarter to one-third of what it costs in the private market. As such, the FHCF acts to lower premiums for residential property insurance as well as to expand reinsurance capacity, which enables a greater amount of insurance to be written in the state than could otherwise be written if the fund did not exist.

[1] Section 627.0628(3)(b), F.S.

Emergency Assessments

If the fund balance of the FHCF, derived from its premium and investment income, is insufficient to pay its obligations to insurers in any given year, the fund may issue revenue bonds or incur other debt, supported by emergency assessments against each insurer writing property and casualty business in the state, excluding workers' compensation. The maximum annual assessment is 4 percent of premiums for payments due to hurricanes in any one year.[2] If necessary to meet its obligations for multiple-year hurricanes, an additional 2 percent assessment (plus any unused portion of the 4 percent assessment) may be imposed, so that the total assessment levied in any one year for multiple year storms may not exceed 6 percent of premium. Insurers are permitted to recoup assessments from their policyholders in higher premiums.[3] The assessments are levied against authorized insurers (i.e., insurers that have a certificate of authority issued by the state) and are not levied against surplus lines insurers (insurers that are approved as "eligible" to write business in the state for risks for which coverage cannot be written by an authorized insurer).

Annual Limit on Fund Obligations (1999 changes)

The law has always limited the claims' paying obligation of the FHCF to its claims' paying capacity (i.e., all of its funds plus the maximum amount of revenue bonds that can be generated by emergency assessments). But important changes were enacted in 1999 to further limit the annual payments from the FHCF to $11 billion in any one year. The $11 billion limit is increased once the claims-paying capacity of the fund for a subsequent year reaches $11 billion (i.e., $22 billion for both years combined). At that point one-half of the excess is provided to increase the initial season capacity.[4] The Legislature recognized in 1999 that if the fund capacity was wiped out after a single season, insurers would no longer have a significant level of reinsurance from the fund, putting increasing pressures on insurers to reduce their hurricane exposure in the state by non-renewing policies, just as happened after Hurricane Andrew. By maintaining an affordable source of reinsurance for the year(s) following a major hurricane, the law helps stabilize the property insurance market.

Coverage Provided to Each Insurer

Each insurer must annually elect coverage from the fund to be reimbursed at 45 percent, 75 percent, or 90 percent of the insurer's residential hurricane losses above its retention, or "deductible." Each insurer's retention is based on its percentage share of the total retention for all insurers combined, based on its percentage of the total fund premium. The total retention for all insurers was established by law at $3 billion in 1995, and which remained the base until 1999, when the law was changed to increase the retention annually to reflect the percentage growth in exposure to the fund (due primarily to increased property value and coverage changes), which is projected to total about $4.8 billion for all insurers combined for 2004. In addition to the total

[2] Section 215.555(6)(a)3., F.S. The maximum assessment is 2 percent of gross direct written premium for the prior year, except that, if the Governor has declared a state of emergency under s. 252.36, F.S., due to the occurrence of a "covered event" (hurricane), the amount of the assessment for the contract year may be increased to an amount not exceeding 4 percent of such premium.

[3] Section 215.555(6)(a)3., F.S. This provision states that any rate filing or portion of a rate filing reflecting a rate change attributable entirely to the assessment levied shall be deemed approved when made, subject to the authority of the Department of Insurance to require actuarial justification as to the adequacy of any rate at any time.

[4] The claims paying capacity of the fund increases by the amount of each year's additional premium and investment income, but it also fluctuates due to the change in interest rates that impacts the estimate of the maximum amount of revenue that can be generated by the assessment cap.

$11 billion limit on reimbursement to all insurers combined, each insurer's reimbursement is limited to its percentage share of the $11 billion (or higher) limit, based on the insurer's percentage share of total premiums for fund coverage.

Current Status of the FHCF

The estimated FHCF balance for December 31, 2003 was $5.462 billion. These funds have been generated by insurance company premiums for FHCF coverage. The fund balance is lowered by the administrative expenses of the SBA in operating the fund and minimal reimbursements to insurers ($13.1 million in 1995 due to Hurricanes Erin and Opal). The balance is also lowered by legislative appropriations from the fund for hurricane loss mitigation purposes up to certain maximum amounts, described below. The fund is authorized to buy private reinsurance, but to date, the SBA has elected not to do so. If hurricane losses in 2003 had required the fund to pay the $11 billion limit in annual reimbursement, the $5.46 billion fund balance would have been used, plus a $5.54 billion bond issue would have been required, supported by an estimated 1.66 percent assessment on property and casualty insurers, based on current interest rate assumptions. The fund currently estimates that its total capacity for the current and subsequent season is about $22 billion (if it levied the maximum 6 percent assessment). Therefore, the $11 billion limit for the initial season coverage has begun to increase under the current law. The increase would be based on increased premium and investment income, growth in the assessment base, and, possibly, lower interest rate assumptions for bonding. Alternatively, an increase in interest rates could decrease these estimates, and therefore decrease capacity.

Mitigation Appropriations

The law directs the Legislature each fiscal year, beginning in fiscal year 1997-1998, to appropriate from the investment income of the FHCF at least $10 million, but no more than 35 percent of the investment income from the prior fiscal year for the purpose of funding local governments, state agencies, public and private educational institutions, and nonprofit organizations, to support hurricane loss mitigation programs. Actual annual legislative appropriations have ranged from the minimum $10 million to $30 million for fiscal year 2001-02. The maximum amount that may be appropriated each year for hurricane loss mitigation is 35 percent of the fund's investment income "for the prior fiscal year." A question of statutory interpretation is which year's investment income should be used to establish the 35 percent cap. It may be unclear whether the statutory reference to the investment income from the "prior fiscal year" refers to the year prior to the year for which the appropriation is made, or prior to the year during which the Legislature enacts the appropriation. If read to refer to the year prior to the year for which the appropriation is made, the Legislature must estimate the investment income for the fiscal year before it has ended. And, as 2001-02 demonstrated, it cannot be assumed that the later year will have greater investment income.

III. Effect of Proposed Changes:

Increases the Capacity of the FHCF to $15 Billion

The bill increases the annual limit on capacity (the amount that may be paid by the FHCF in the event of a storm) to $15 billion, effective June 1, 2005. Currently, there is an $11 billion limit respectively on initial and subsequent season coverage. The FCHF has reached the $11 billion limit on both initial and subsequent season coverage. Under current law, the result is that the initial season capacity of the FHCF will begin to grow depending on the level of interest rates and the growth of the FHCF's assessment base, while subsequent season capacity will remain at $11 billion. Instead, under the bill, the annual limit for both the initial and subsequent seasons is increased to $15 billion dollars each season.

Proponents of the bill say the capacity of the FHCF should be increased to $15 billion because increasing capacity will bring the fund's coverage capacities in line with the rapidly increased amount of potential exposure the fund faces in Florida. State Board of Administration (SBA) representatives indicate that exposure to the FHCF has increased 60 percent (over $400 billion in increased exposure) since fund capacity was frozen at $11 billion dollars in 1999. During the same time period, participating insurer coverage has declined by 10 percent and the FHCF retention (deductibles insurers are responsible for) has increased by over 35 percent. It is hoped that by raising capacity to $15 billion, participating insurer coverage will increase and the FHCF will have a greater capacity to meet the needs of the marketplace following a major hurricane loss.

Increasing the FHCF's capacity to $15 billion will require much greater bonding (SBA representatives place the estimate at $8 to $9 billion) and potentially place higher debt obligations on the state. The state currently has approximately $20.4 billion in outstanding debt. An FHCF $9 billion bond issue in the aftermath of a major hurricane would increase the state's debt by almost 50 percent.[5] In the extremely unlikely event that major hurricanes hit Florida in consecutive years, the total FHCF debt could approach $23 billion.

SBA representatives also state that increasing the FHCF's capacity will help insurers write more business in the state because of lower reinsurance costs. In turn, it is hoped that this will depopulate the residual market—Citizens Property Insurance Corporation. Citizen's has seen a significant increase in its number of policyholders and currently pays the largest premium to the FHCF. However, to the extent the bill requires insurers to apply rate reductions and savings realized from the bill to the policies of current policyholders, insurers may not be able to write more policies or help depopulate Citizens. Private reinsurers argue that the private market currently is providing sufficient, affordable reinsurance to meet the demands of the Florida marketplace. They argue that the FHCF should be a limited program that is only used in the event of a catastrophic storm, and that the increase of the fund's capacity paired with the lowering of the insurer retention will increase the frequency and amounts of payments made by the fund in the event of a storm, triggering higher debt obligations for the state.

Lowers the Insurer Retention

The insurer retention is the deductible that property and casualty insurers must pay in damages before the FHCF will begin paying for damages. Currently the retention increases each year as claims exposure to the fund grows. As a result, the total retention amount in Florida has grown from $3 billion in 1999 to almost $4.4 billion for contract year 2003-04 and is projected to be $4.8 billion for 2004-05. The bill reduces the total retention amount to $4 billion beginning June 1, 2005, after which the new retention would be adjusted for claims exposure in subsequent years.

[5] SBA representatives place the probability of such a storm occurring once every 62 years.

Reinsurance companies oppose both the increase of FHCF capacity to $15 billion and the lowering of the retention deductible to $4 billion. Private reinsurers assert that they are currently providing sufficient, readily available property casualty coverage in Florida to meet market needs, and that the bill will serve as a vehicle for government reinsurance to displace private reinsurance. Reinsurers further argue that the increase in capacity, coupled with an increase in assessment authority will raise costs for all property and casualty lines in Florida, thus offsetting any benefits from the legislation that decrease homeowners premiums. Reinsurers argue that the private market should be allowed to handle smaller events, with the FHCF only used for large hurricanes. However, representatives from the board point out that reinsurance from the fund costs far less than private reinsurance. It is hoped that by making more reinsurance from the FHCF, the cost of property and casualty insurance in Florida will drop and the number of policies in Citizens will be reduced.

Lowering the retention to $4 billion will raise the FCHF reimbursement premiums. But, this will lower reinsurance costs for insurers that substitute FCHF coverage for private reinsurance. Insurers that do not purchase private reinsurance below the FHCF will not receive any benefit from the lowering of the retention, nor will some insurers with national catastrophic insurance programs who do not get credit for FHCF coverage in Florida because they write a small portion of their business in the state. Also, lowering the retention will cause the FHCF to be triggered more frequently, causing the fund to pay out its cash more quickly, which could then result in an increased likelihood of a bond issue by the fund.

Requires That the Initial and Subsequent Season Capacities Be Adjusted With the Growth of Exposure to Losses

In addition to being raised to $15 billion for the 2005 contract year, both the initial and subsequent season capacities will be adjusted with the growth of the fund's exposure to losses - which is increased primarily due to rising property values and new construction - after the $15 billion mark is reached for the initial and subsequent seasons. However, the dollar growth in the capacity limit may not increase by an amount greater than the dollar growth in the cash balance of the fund during the past year. Under current law, the fund's initial season capacity may grow based upon the fund's assessment base and interest rates while subsequent season capacity is frozen at $11 billion. The result of subsequent season capacity being frozen is that it will become increasingly difficult to recharge capacity after a major hurricane. Representatives from the SBA state that allowing subsequent season capacity to be adjusted should help solve this problem. Additionally, SBA representatives assert that having the capacity adjusted based on property values is a logical step to make and will make it easier for insurance carrier to determine exactly what their reinsurance needs are. Requiring that capacity not grow by an amount greater than the growth in the cash balance will ensure that the bonding requirements of the fund do not increase above the levels established after raising the retention to $15 billion.

Increases the FHCF Assessment Authority

In order to fund the increased capacity of the FHCF, the bill increases the maximum annual amount of emergency assessments against property and casualty insurers, from 4 to 6 percent for any single year's storms and from 6 to 10 percent combined for assessments for multiple storm seasons. Representatives from the SBA state that the new assessment levels are necessary to fund FHCF capacity at its new $15 billion dollar level. Opponents of this provision state that the increased assessment amounts paired with the increase in capacity could raise premiums for all lines of property and casualty insurance including auto insurance and business owners insurance.

Proponents of the bill state the FHCF must help maintain capacity in the residential property insurance marketplace following a covered storm. If there is a large reduction in FHCF capacity following a major hurricane loss, insurers will need to replace FHCF reinsurance coverage at a cost of three to four times the cost of FHCF coverage. The increase in capacity paired with a higher assessment authority is designed to fully recharge capacity following a major storm.

Surplus Lines Added to the Assessment Base

The bill adds surplus lines insurance policies to the fund's assessment base.[6] Surplus lines are currently included in the assessment base for Citizens Property Insurance Corporation (Citizens) the state-created insurer of last resort that is authorized to levy assessments to fund its deficit. Citizens currently may assess surplus lines and the FHCF would use a similar procedure as that created for Citizens in 2002. The Florida Surplus Lines Service Office will collect the assessments from surplus lines agents that are remitted by surplus lines policyholders. Representatives from the SBA state that adding surplus lines, representing about $2.1 billion in premiums, will increase the assessment base of the FHCF by around 10 percent and spread the potential cost of bonding over a broader base and thereby lower the overall assessment percentage. Surplus lines insurer representatives assert that surplus lines should not be included in the assessment base because such companies cannot join the FHCF and do not benefit from it, thus surplus lines policyholders should hot have to pay for coverage they do not benefit from. However, this argument would apply to motor vehicle insurers and other non-residential property and casualty insurers that are subject to the assessment by the fund. Representatives from the SBA note that currently $17.3 billion of the $22 billion assessment base premiums are collected from lines of insurance that do not participate in the FHCF.

Exempts Medical Malpractice Premiums from the FHCF Assessment Base

The bill provides that medical malpractice premiums are exempt for purposes of emergency assessments. Worker's compensation premiums are already exempt from assessments for purposes of preventing a premium increase in the event of a FHCF assessment. By exempting medical malpractice premiums, an assessment by the FHCF will not have the result of increasing medical malpractice premiums in the state.

Other Changes:

- The bill permits insurers who have an emergency assessment levied against them by the FHCF to collect the assessment from their policyholders as a surcharge on direct premiums, at the same time it collects the premium payment from policyholders. Currently, an insurer must remit the emergency assessment to the FHCF first, and then make a rate filing with the Office of Insurance Regulation to recoup the money from its policyholders via a higher rate.
- Requires insurers to submit to the Office of Insurance Regulation a rate filing by December 31, 2005, regarding covered policies that reflect the overall rate reduction or

[6] Surplus lines are insurers that are not "admitted" to sell insurance in Florida, but are permitted to offer coverage to parties that are unable to purchase coverage from an admitted insurer.

increase due to the provisions of the bill. Any rate reduction or increase must be applied retroactively to policies issued or renewed after the bill's effective date. Currently, sections one and two of the bill each have different effective dates, so it is unclear which effective date the provision refers to. But the provisions of the bill likely to have an effect on insurance rates will take effect on June 1, 2005. Also, the provisions of this requirement are unclear as to how a retroactive reduction in rates would be made to policyholders. Options include a refund or a credit towards future premium costs. Finally, to the extent the bill requires insurers to apply rate reductions and savings realized from the bill to the policies of current policyholders, insurers may not be able to write more policies or help depopulate Citizens.

- The bill requires that commercial residential excess policies and deductible buy-back policies that require individual ratemaking to calculate exposure values must be excluded from the FHCF by rule if the actuarial soundness of the fund is not jeopardized. The change is made to prevent insurers from having to pay the high cost of individual ratemaking and the sometimes difficult task of separating different types of liability within combined or blanket policies.
- Clarifies the term "prior fiscal year" as related to legislative appropriations from the investment income of the FHCF. Each year the legislature appropriates $10 million from the FHCF and may appropriate up to 35 percent of the FHCF's investment income. The change will clarify that the legislature is to appropriate from the FHCF's investment income for the most recently concluded fiscal year, the advantage of which is that the exact amount of investment income from which appropriations can be made is known.
- The bill increases the de minimis exposure limit whereby insurers are exempted from the FHCF if the actuarial soundness of the fund is not affected. The exemption will apply to insurers writing policies that total $10 million or less in exposure, rather than the current limit of $500,000 or less in total exposure from policies. The change will increase the number of exempt insurers from 6 to 27, and represent a total FHCF premium of $18,000. The change is made to help the facilitation of the FCHF and relieve insurers writing small amounts of residential insurance from participation and reporting requirements under the fund.
- The bill will permit the FCHF to purchase reinsurance from reinsurers acceptable to the Office of Insurance Regulation, regardless of whether the reinsurer is approved under s. 624.610, F.S. The change will broaden the selection of reinsurers from which the FHCF may purchase reinsurance.
- The bill provides rulemaking authority to charge interest on late remittances of funds to the FHCF, including emergency assessments and reimbursement premiums.
- Clarifies that each account within Citizens will receive a pro-rata share of excess recoveries based on losses rather than premiums. Funds from the FHCF are available after all other insurers have received their pro-rata share (based on FHCF premiums) of the FHCF's capacity.
- Defines the term "corporation" to mean the FHCF Finance Corporation.
- Makes clarifying changes regarding additional living expenses and states that 40 percent of the value of a residential structure may be considered "losses" for FHCF purposes. Currently the fund's coverage for additional living expense losses is limited to 20 percent of the insured value of a mobile home or personal residential structure.

- Clarifies language regarding reporting requirements for publication of borrowing capacity estimates and notification to insurers.
- Deletes language in the current statute (sub-paragraph 3 of s. 215.555(4)(b), F.S.) that mandates recoveries from reinsurance and the FHCF cannot exceed 100 percent of the insurers losses from a covered event (i.e. a hurricane).
- States that the funds from emergency assessments may be used to pay for debt service coverage not met by reimbursement premiums. The FHCF's bond documents require debt service to have a 1.5 times coverage ratio. The purpose of the change is to ensure that if capacity is increased to $15 billion under the bill, the FHCF will have the funds needed to meet the debt coverage provision of the FCHF bond documents.
- Requires an insurer to return any collected assessment attributable to an unearned premium that the insurer is required to return. A credit adjustment to the collected assessment may be made by the insurer with regard to future remittances payable to the fund for corporation, but the insurer is not entitled to a refund. When a surplus lines insured or an insured who has coverage with an unauthorized foreign insurer, the Florida Surplus Lines Service Office must provide a credit or refund to the agent of such insured for the collected assessment attributable to the unearned premium prior to remitting the emergency assessment collected to the fund or corporation.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

The bill will increase the assessment authority of the FHCF, and increase the amount of the fund's liability for reimbursement to insurers in the event of a major storm. The result of these changes may be that the FHCF will have to impose greater assessments on property and casualty insurers in this state, with the costs of the greater fees passed on to policyholder. However, in the event of a major storm, it is arguable that higher costs to the consumer are unavoidable, and would be even greater if the capacity of the FHCF is not increased to provide additional reinsurance that is less expensive than that which is available in the private market. Also, increased coverage by the FHCF will operate to lower assessments that may be imposed by Citizens Property Insurance Corporation (Citizens) after a major storm.

B. Private Sector Impact:

The SBA asserts that the bill will help to stabilize the property insurance market, particularly after a major hurricane, by increasing capacity and providing insurers with a relatively constant layer of reinsurance, which grows by the same amount as exposure to losses grow, and which is more likely to be maintained the year following a storm season that triggers fund losses.

SBA representatives also state that increasing the FHCF's capacity and lowering the retention will help insurers help write more business in the state because of lower reinsurance costs. In turn, it is hoped that this will depopulate the residual market—Citizens Property Insurance Corporation. Citizens has seen a significant increase in its number of policyholders and currently pays the largest premium to the FHCF. However, to the extent the bill requires insurers to apply rate reductions and savings realized from the bill to the policies of current policyholders, insurers may not be able to write more policies or help depopulate Citizens.

Resetting the aggregate industry retention to $4 billion and providing for a $15 billion limit starting in 2005 will increase FHCA premiums. However, the SBA asserts that due to the fact that coverage from the fund may be significantly less expensive than private reinsurance for some insurers, overall reinsurance costs may decline. However, no figures have been provided by the SBA that show how much reinsurance rates would decline under the legislation.

Medical Malpractice insurers would be excluded from the emergency assessments, which would help reduce any effect that a major storm would have on premium costs. Surplus lines insurance policyholders would be subject to the emergency assessments, if they are levied.

The growth in the exposure that the FHCF faces over the past 5 years is a major reason the bill seeks to increase the capacity of the fund. The following chart shows the growth in FHCF exposure over the last nine contract years. The chart shows that the fund's exposure to damages has increased at a higher rate since the 1998-1999 contract year.

Contract Year	Exposure (billions)
1995-1996	$765.3
1996-1997	$771.3
1997-1998	$775.8
1998-1999	$790.6
1999-2000	$814.9
2000-2001	$885.9
2001-2002	$955.7
2002-2003	$1,098.3
2003-2004	$1,197.3

A result of the rapid increase in exposure that the FHCF has faced since 1999, is that the fund has shown a minor erosion in coverage since 1999, as the following chart shows.

Year	Capacity (billions)	Payout Multiple	Retention (billions)	Retention Multiple
1995	$4.9	11.14	$3.08	6.22
1996	$6.4	15.21	$2.89	6.20
1997	$8.0	17.12	$3.10	6.20
1998	$11	24.72	$2.89	6.20
1999	$11	25.31	$3.06	6.63
2000	$11	25.07	$3.26	7.15
2001	$11	23.02	$3.39	6.95
2002	$11	22.06	$4.06	8.03
2003	$11	22.42	$4.40	8.95

C. Government Sector Impact:

The SBA has not indicated that the legislation would result in any increased costs in its administration of the FHCF.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.