The Florida Senate

BILL ANALYSIS AND FISCAL IMPACT STATEMENT

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

Prepared By: The Professional Staff of the Banking and Insurance Committee

BILL: CS/SB 2156

INTRODUCER: Banking and Insurance Committee and Banking and Insurance Committee

SUBJECT: Florida Hurricane Catastrophe Fund

DATE: March 25, 2008 REVISED:

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

Please see Section VIII. for Additional Information:

A. COMMITTEE SUBSTITUTE..... [X] Statement of Substantial Changes

B. AMENDMENTS........................ [ ] Technical amendments were recommended

[ ] Amendments were recommended

[ ] Significant amendments were recommended

I. Summary:

The Florida Hurricane Catastrophe Fund (FHCF) is a tax-exempt state trust fund that reimburses (reinsures) insurers for a portion of their hurricane losses to residential property. In 2007, House Bill 1-A[1] increased the coverage limits of the FHCF for the 2007, 2008 and 2009 hurricane seasons by adding the Temporary Increase in Coverage Limit (TICL) options that allow an insurer to purchase its share of up to $12 billion in coverage, in $1 billion increments, above the mandatory FHCF coverage (which was $15.85 billion above a $6.1 billion retention for the 2007 hurricane season).

The bill reduces the amount of optional TICL coverage offered by the state in two ways. First, the bill eliminates the TICL coverage options of $10 billion, $11 billion, and $12 billion, so that a maximum of $9 billion in TICL coverage will be offered in addition to the mandatory FHCF coverage. Second, the TICL option is changed to only offer reimbursement of 70 percent of the insurer's losses within the TICL layer purchased. Current law permits insurers to purchase coverage that reimburses 45, 75 or 90 percent of the insurer's losses, but the vast majority of insurers elect the 90 percent option. TICL coverage is much less expensive than what can be

[1] Chapter 2007-1, L.O.F.

procured from the private reinsurance market and was the primary source of anticipated savings that insurers were required to reflect in rate filings with the Office of Insurance Regulation.

Currently, the FHCF is administered by the State Board of Administration (SBA) which consists of the Governor, the Chief Financial Officer, and the Attorney General. The bill creates a Division of the Florida Hurricane Catastrophe Fund administratively housed within the SBA, but subject to a governing board consisting of the Governor and the Cabinet (Chief Financial Officer, Attorney General and Agriculture Commissioner). Under the bill, the board-appointed director of the newly created division would administer the FHCF, rather than the SBA.

This bill substantially amends the following sections of the Florida Statutes: 215.555, 215.557, 215.5586, 215.559, 215.5595, and 627.0628.

II. Present Situation:

The Florida Hurricane Catastrophe Fund (FHCF)
The FHCF is a tax-exempt trust fund created in 1993 after Hurricane Andrew as a form of mandatory reinsurance for residential property insurers, (s. 215.555, F.S.) All insurers that write residential property insurance in Florida are required to buy reimbursement coverage (reinsurance) on their residential property exposure through the FHCF. The FHCF is administered by the State Board of Administration (SBA) and is a tax-exempt source of reimbursement to property insurers for a selected percentage (45, 75, or 90 percent) of hurricane losses above the insurer's retention (deductible). The FHCF provides insurers an additional source of reinsurance that is significantly less expensive than what is available in the private market, enabling insurers to generally write more residential property insurance in the state than would otherwise be written. Because of the low cost of coverage from the FHCF, the fund acts to lower residential property insurance premiums for consumers. The FHCF must charge insurers the "actuarially indicated" premium for the coverage provided, based on hurricane loss projection models found acceptable by the Florida Commission on Hurricane Loss Projection Methodology.

Insurers must first pay hurricane losses up to their "retention" for each hurricane, similar to a deductible, before being reimbursed by the FHCF coverage. In 2005, legislation addressed multiple storm seasons by providing that the retention is reduced to one-third of the regular retention for a third hurricane and each additional hurricane. The full retention is applied to the two hurricanes causing the greatest losses to the insurer. The retention is adjusted annually based on the FHCF's exposure. For the 2007 hurricane season the retention was approximately $6.1 billion for all insurers combined. A retention is calculated for each insurer based on its share of fund premiums.

For the 2007 hurricane season the FHCF provided $15.85 billion in mandatory coverage. That amount is adjusted annually based on the percentage growth in fund exposure, but not to exceed the dollar growth in the cash balance of the fund. The maximum coverage amount for each insurer is based on that insurer's share of the total premiums paid to the fund.

House Bill 1-A added two additional layers of optional coverage that property insurers may buy for the 2007, 2008, and 2009 hurricane seasons:

- Temporary Increase in Coverage Limit options ("TICL"), that allow an insurer to purchase additional reinsurance for its share of up to $12 billion, in $1 billion increments, above the FHCF annual limit of the mandatory coverage (i.e., up to a total of approximately $28 billion). The SBA may further increase the limits by an additional $4 billion (i.e., up to $32 billion). The SBA did not increase the limits in 2007.
- Temporary Emergency Additional Coverage Options ("TEACO"), that allows residential property insurers to purchase additional coverage below each insurer's market share of the FHCF retention. For 2007, the FHCF retention was $6.1 billion. The TEACO options allow an insurer to select its share of a retention level of $3 billion, $4 billion, or $5 billion, to cover 90 percent, 75 percent, or 45 percent of its losses up to the normal retention for the mandatory FHCF coverage.

The 2007 law also allowed eligible insurers to each purchase up to $10 million in additional FHCF coverage, explained in more detail below.

If the cash balance of the FHCF is not sufficient to cover losses, the law allows the issuance of revenue bonds of up to 30-year terms, funded by emergency assessments on property and casualty policyholders. The FHCF is authorized to levy emergency assessments against all property and casualty insurance premiums paid by policyholders (other than workers' compensation, flood, medical malpractice, and accident and health insurance), including auto insurance and surplus lines policyholders. Annual assessments are capped at 6 percent of premium with respect to losses from any 1 year and a maximum of 10 percent of premium to fund hurricane losses from multiple years.

TICL Coverage and the Current Financial Status of the FHCF

Insurers must pay a premium for the optional TICL coverage, established by the SBA under the same method it uses for determining "actuarially indicated" premiums for the mandatory FHCF coverage. As historically applied by the SBA, the actuarially indicated premium is the premium that is equal to the estimated average annual loss for the coverage purchased, based on a weighted average of the hurricane loss models approved by the Florida Commission on Hurricane Loss Projection Methodology, plus the SBA's costs of administration. For the TICL coverage options, the premium was 2.2 percent of the coverage amount, for an insurer electing to buy its full share of the $12 billion TICL limits for 2007. This 2.2 percent "rate-on-line" is much less expensive than the premiums charged by private reinsurers, which range from about 10 to 20 percent for this level of coverage. This is the primary source of expected premium savings under the new law. Insurers took nearly full advantage of the TICL options, purchasing about $11.43 billion of the $12 billion offered, in exchange for a total premium of $242 million.

The Florida Hurricane Catastrophe Fund had potential reimbursement obligations to insurers of $27.85 billion for the 2007 hurricane season. This amount consisted of:

- $15.85 billion of mandatory FHCF coverage (subject to a growth factor each year);
- $11.43 billion of TICL coverage selected by insurers (of the optional $12 billion offered only for 2007, 2008, and 2009); and
- $557 million selected by limited apportionment insurers eligible to purchase up to $10 million additional coverage (offered only for 2007).

To fully meet the potential $27.85 billion obligation for 2007, the FHCF relied on:

- $2.08 billion estimated year-end cash balance;
- $6.3 billion in proceeds from pre-event notes that have already been issued (for short-term liquidity needs);
- Up to $25.75 billion in bonds to be issued after a hurricane (which could be used to retire the pre-event notes).

The FHCF had potential reimbursement obligations to insurers of $27.85 billion for the 2007 hurricane season, for which the FHCF would have been required to issue up to $25.75 billion in post-hurricane bonds. This would require an annual assessment of about 5 percent of premiums for 30 years. Even if this full obligation was triggered, the FHCF faces similar obligations for 2008 and 2009, due to the TICL options. The FHCF estimates that its maximum potential obligations for two years of about $56 billion would require the maximum allowable assessment of 10 percent annually for 30 years.

A bond issue of $26 billion would be unprecedented and may require multiple bond issues over a period of time, while attempting to match time frames for insurers to pay claims and obtain timely reimbursement. The largest single long-term tax exempt financing ever done was for just over $6 billion, but there have been programs consisting of multiple financings over a period of several months for over $10 billion, and the largest single municipal financing was a taxable pension financing of $10 billion. But there are over $2.5 *trillion* in tax-exempt municipal bonds currently held (of which over $900 billion are held by households alone), reflecting a large market appetite for such securities. When interviewed by committee staff in November, 2007, the financial advisor for the FHCF believed that the full amount of potential bonding needed could be issued by the FHCF over a 9 to 18 month period in a series of several issues. This belief was based in part on written opinions earlier that summer from each of the three senior managers of the FHCF -- Bear Stearns, Goldman Sachs, and Lehman Brothers -- each of whom said that they believed the entire amount was achievable in a similar or shorter time frame. Currently, the continuing fallout of the subprime mortgage market and recent downgrades by financial rating organizations of insurers writing bond insurance have reportedly had a negative impact on the issuance of municipal bonds and other tax-exempt government issued bonds.

The largest insurance rating service, A.M. Best, expressed concern that the FHCF may be unable to issue bonds to produce its maximum claim-paying capacity through the TICL layer. In a February, 2007 report issued shortly after HB 1-A was enacted, A.M. Best raised the credit risk factor for reinsurance recoverables from the FHCF from 4 percent to 12 percent, meaning that for purposes of rating the financial strength of an insurer, the reinsurance recoverables from the FHCF are reduced 12 percent.

The probability of the full $28 billion loss (requiring a $26 billion bond issue) to the FHCF occurring in any given year is relatively low, but not remote. This would require a hurricane resulting in about $36 billion of insured residential hurricane losses (including the losses covered by the insurers' $6.1 billion retention and 10 percent or greater co-pay), which is estimated to have a probability of 1.6 percent, or a hurricane that occurs about once every 65 years. By comparison, the probability of loss to the FHCF for the full $15.85 billion mandatory coverage, but without the TICL coverage, is estimated to be about 3 percent, or once every 33 years. The probability of any loss at all to the FHCF (i.e., a loss above the industry retention of $6.1 billion) is 13.33 percent, or once every 7.5 years.

Supplemental FHCF Coverage for Limited Apportionment Insurance Companies
In 2006, the Legislature authorized limited apportionment companies (having $25 million in surplus or less and writing at least 25 percent of its premiums in Florida) to purchase coverage from the FHCF that reimburses the insurer for up to $10 million in losses from each of two hurricanes for the 2006 hurricane season only. The coverage was priced at a 50 percent rate-on-line (e.g., $5 million premium for $10 million in coverage) with a free reinstatement of coverage for a second storm that triggers a recovery. The limited apportionment insurer's retention for such coverage was set at 30 percent of the company's surplus, thus an insurer with a surplus of $20 million would have to pay $6 million in losses before being reimbursed from the FHCF for its supplemental coverage.

In 2007, House Bill 1-A reinstated the $10 million supplemental coverage for the 2007 hurricane season. The availability for the coverage was limited to insurers that purchased the supplemental coverage in 2006, limited apportionment companies that began writing property insurance in 2007, and insurers approved to participate in either 2006 or 2007 for the Insurance Capital Build-Up Incentive Program. The statutory language authorizing the $10 million supplemental coverage is set to expire on May 31, 2008, making it unavailable for the 2008 hurricane season or beyond.

Insurance Capital Build-Up Incentive Program
In 2006, the Legislature created the Insurance Capital Build-Up Incentive Program, which provides for the lending of state funds in the form of surplus notes to new or existing authorized residential property insurers under specified conditions. The maximum dollar amount of a surplus note is set at $25 million. The surplus note is repayable to the state, with a 20 year term, at the 10-year Treasury Bond interest rate (with interest only payments the first three years).

In order to qualify for a surplus note, an insurer that applied prior to June 1, 2007 was required to contribute new capital to its surplus equal to the amount of the surplus note; an insurer applying after that date but before June 1, 2008 was limited to a surplus note equal to one-half of its new capital contribution. The insurer's surplus, new capital, and the surplus note must total at least $50 million. Additionally, the insurer must commit to meeting a minimum writing ratio of net written premium to surplus of at least 2:1 for the term of the surplus note, for residential property insurance in Florida that covers the peril of wind.

Legislation in 2007 (HB 1-A and SB 2498) revised the program to allow an insurer writing a specified amount of manufactured housing residential property insurance to qualify for a surplus note of up to $7 million, if the insurer's surplus, new capital, and the surplus note total at least $14 million.

State Board of Administration
Article IV, Section 4(e) of the Florida Constitution establishes the State Board of Administration as consisting of the Governor (as Chair), the Chief Financial Officer, and the Attorney General who serve as the Board of Trustees for the SBA. Pursuant to s. 19-3.016, F.A.C., the Board of Trustees selects an Executive Director of the SBA, who serves as the chief administrative officer of the SBA. The Board of Trustees delegates authority to the Executive Director to manage the financial affairs of the SBA.

The State Board of Administration serves as the financial manager of thirty investment funds on behalf of the State of Florida, comprising over $184 billion in assets as of June 30, 2007. The primary function of the SBA is to administer the Florida Retirement System (FRS) Pension Plan, which comprises approximately 75 percent of the total assets under SBA management and is the fourth largest public retirement plan in the United States. The SBA also manages the Florida Retirement System Investment Plan, which provides public employees with a portable alternative to the state pension plan.

The Florida Hurricane Catastrophe Fund is administered by the State Board of Administration pursuant to s. 215.555, F.S. The SBA is required to invest the moneys in the FHCF pursuant to the requirements placed on the SBA in ss. 215.44-215.52, F.S. All earnings must be retained in the fund. The SBA is authorized to employ or contract with staff and professionals as needed to administer the fund. The board has done just that, employing a Senior FHCF Officer who is in charge of much of the day-to-day management of the FHCF, a Director of Operations, and various attorneys, auditors, and analysts. The SBA has also contracted with Paragon Strategic Solutions, Inc., of Minneapolis, MN, to aid in the administration of the fund.

The SBA also administers the Local Government Surplus Funds Trust Fund, which is the largest local government pool investment fund in the United States. The fund serves as a repository for investing local government surplus funds and is designed to help local governments maximize earnings and reduce the need for additional local taxes. According to the Office of Program Policy Analysis and Government Accountability, as of June 30, 2007, the market value of the fund was $30.95 billion. In November 2007, a number of local governments removed a total of approximately $10 billion in assets from the fund due to the reduction in value of securities backed by mortgages in which the SBA invested fund moneys.

III. Effect of Proposed Changes:

Section 1. Amends s. 215.555, F.S., Florida Hurricane Catastrophe Fund.

Reduction of Temporary Increase in Coverage Limits Options and the TICL Reimbursement percentage
The bill reduces the amount of optional TICL coverage offered by the FHCF in two ways. First, the bill eliminates the TICL coverage options of $10 billion, $11 billion, and $12 billion, so that a maximum of $9 billion in TICL coverage will be offered in addition to the mandatory FHCF coverage (which was $15.85 billion in 2007). Second, the TICL option is changed to only offer reimbursement of 70 percent of the insurer's losses within the TICL layer purchased. Current law permits insurers to purchase coverage that reimburses 45, 75 or 90 percent of the insurer's losses. These changes are made in current s. 215.555(17), F.S., which the bill renumbers as subsection (18).

Creation of the Division of the Florida Hurricane Catastrophe Fund and the Board
Section 1 of the bill creates a Division of the Florida Hurricane Catastrophe Fund administratively housed within the State Board of Administration, but subject to a governing board consisting of the Governor and the Cabinet. Under the bill, the Governor and Cabinet would appoint the director of the newly created division which would administer the Florida

Hurricane Catastrophe Fund instead of the SBA. Thus, the new Division of the FHCF would no longer be under the authority of the SBA and its Executive Director and would, instead, report directly to the Governor and Cabinet, which includes the Commissioner of Agriculture who is not a member of the SBA. This proposed organization is modeled on the current Division of Bond Finance, which is housed within the SBA, but reports directly to the Governor and Cabinet.

Paragraph (1)(f) is amended to specify that it is the Legislature's intent that the FHCF program be under the direction and control of the Division of the Florida Hurricane Catastrophe Fund within the State Board of Administration.
Subsection (2) is amended and creates definitions for "division," "director," and "FHCF" or "fund." It also creates a definition of "board" to mean the governing board of the division, composed of the Governor and the Cabinet. The Governor is the chair of the board, the Attorney General is the secretary of the board, and the Chief Financial Officer is the treasurer of the board. The Commissioner of Agriculture is a member of the Cabinet, but is not otherwise designated as an officer of the board.

A new subsection (3) creates the Division of the Florida Hurricane Catastrophe Fund. The new entity is a division of the State Board of Administration, and is required to administer the FHCF. The board of the division is the Governor and Cabinet.

Subsection (4) is amended to clarify that the FHCF is within the SBA, but no longer administered by the SBA. The bill charges the FHCF governing board with appointing a director of the FHCF who is responsible for the administration of the fund. The appointment of the director is subject to approval by a majority vote of the board. The division, rather than the SBA, is granted authority to employ or contract with employees and professions as needed to administer the fund. The bill also specifies that the division has the power to sue and be sued in the division's name. The SBA continues to be charged with investing the moneys in the fund pursuant to ss. 215.44 - 215.52, F.S.

Most of the functions that are currently carried out by the SBA are transferred to the control of the Division of the FHCF. These include:

- Entering into FHCF reimbursement contracts with each insurer writing policies in the state, and the administration of formulating such contracts pursuant to subsection (5).
- Calculating the premium to be charged each insurer for its FHCF reimbursement contract pursuant to subsection (6).
- When moneys in the fund are insufficient to pay reimbursement to insurers and upon direction of the governing board, the division is granted authority to execute agreements with the issuers of revenue bonds and other financing arrangements to secure revenue bonds for sale. Additionally, the division is authorized to enter into agreements for the issuance of revenue bonds upon a determination that doing so would maximize the ability of the fund to meet its future obligations. These provisions are in paragraph (7)(a) as amended by the bill.
- Subsection (8) states that upon authorization by the governing board, the division may procure reinsurance acceptable to the OIR for the purpose of maximizing the capacity of the fund and may enter into capital market transactions (such as catastrophe bonds and side-car arrangements) permissible for the SBA's usage under s. 215.47(10) and

(11), F.S. The division may also, if authorized by the governing board, borrow from market sources or enter into financing arrangements at prevailing interest rates.
- Appointing the nine-member advisory council that provides information and advice regarding the administration of the FHCF, pursuant to subsection (9). However, members of the council serve at the pleasure of the board, not the division.
- The division is authorized to take any action necessary to enforce rules and the provisions and requirements of reimbursement contracts pursuant to subsection (12).
- Calculation of the TEACO retention multiples and TICL coverage multiples pursuant to subsection (17).

A major function that is currently assigned to the SBA is assigned to the newly formed board (Governor and Cabinet). That function is making the determination that emergency assessments must be levied by the OIR because the fund cannot meet it's obligations under its reimbursement contracts pursuant to paragraph (7)(b). Authority to utilize unused assessment authority in subsequent years to meet the fund's obligations is also given to the board. The bill also requires the board to make available the coverage for limited apportionment insurers described in subparagraph (5)(b)4. However, the subparagraph expires on May 31, 2008.

Section 2. Conforming change to s. 215.557, F.S., requiring reports of insured values to be reported to the Division of the FHCF, rather than the SBA.

Section 3. Conforming change to s. 215.5586, F.S., specifying that the director of the division (rather than the senior officer of the FHCF) is a member of the advisory council to the My Safe Florida Home Program.

Section 4. Technical change to s. 215.559(1), F.S., conforming to the renumbering of statutory provisions under section 1 of the bill.

Section 5. Amends s. 215.5595, F.S., related to the Insurance Capital Build-Up Incentive Program. Subsection (2) is amended to transfer the administration of the program from the SBA to the Division of the Florida Hurricane Catastrophe Fund. A conforming change is made in paragraph (3)(a) to the definition of "board," amending that term to mean the Division of the Florida Hurricane Catastrophe fund rather than the SBA. Thus, all provisions in s. 215.5595, F.S., that currently refer to the SBA will now refer to the division.

Section 6. Amends s. 627.0628, F.S., related to the Florida Commission of Hurricane Loss Projection Methodology (commission). The bill assigns the commission to the Division of the Florida Hurricane Catastrophe Fund (division), rather than the SBA, but the commission remains administratively housed within the SBA. Conforming changes are also made to the 11-member panel of the commission. The director of the division is a board member under the bill, rather than the senior employee of the SBA responsible for operations of the FHCF. Additionally, the board of the division (Governor and Cabinet), rather than the SBA, shall annually appoint one of the commission members to serve as chair. The division rather than the SBA is responsible for providing travel, expenses, and staff support for the commission as an expense of the FHCF. The exemption from liability provided in statute applies to the division and its employees, rather than the SBA.

The statutory requirement to establish reimbursement premiums for the FHCF using methods, principles, standards, and models found by the commission to be accurate or reliable is transferred from the SBA to the division.

Effective Date

Section 7. The bill is effective June 1, 2008.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

See Private Sector Impact and Government Sector Impact, below.

B. Private Sector Impact:

The elimination of the top $3 billion of TICL coverage options and the institution of a 70 percent reimbursement level for TICL coverage reduces the risk of loss to the FHCF and, therefore, the risk of assessments to property and casualty insurance policyholders. However, it is also may cause rates for residential property insurance to increase in the short-term because insurers will be required to pay higher premiums for replacement coverage from private reinsurers. Representatives from the Department of Financial Services, estimate that the premium increase on residential policies would range from 1.5 percent to 3.4 percent, on average.[2] Using a similar methodology, the OIR reached similar results regarding the statewide rate impact of the bill (1.4 percent to 3.1 percent, on average). However, the OIR and the DFS Office of Consumer Advocate differ in their estimates of the likely range of premium impact by county. The OIR applied the methodology to rates in five selected counties and found greater degrees of variation. For instance, in Miami-Dade County the premium impact is estimated at 3.7 percent to 8.6 percent by the OIR, while for Duval County the impact is estimated at 0.2 percent to

[2] The range in estimated premium impact is primarily caused by different estimates on what the average charge of the private reinsurance market will be for coverage to reinsure the additional 20 percent of losses along the TICL layers that this bill would place into the private market. The low end of the DFS estimate assumes an 8 percent rate on line for such coverage, while the high end of the estimate assumes a 15 percent rate on line.

0.4 percent.[3] Insurers with greater numbers of policyholders in areas of the state with a greater likelihood of hurricane losses (such as Miami-Dade County) will experience higher premium increases than areas of the state less prone to experiencing hurricane losses (such as Duval County). However, an analysis from the Office of Consumer Advocate placed the premium impact[4] at 2.4 percent for Miami-Dade County and 1.1 percent for Duval.[5] This analysis shows a more consistent premium impact across the state. However, it should be noted that all the forgoing analyses of premium impact provide an average number and that some policyholders will likely face greater increases than anticipated while others face lesser increases in premium cost.

The DFS representatives estimate that the reduction in risk of loss to the FHCF, due to the reduction in TICL coverage, would potentially save Floridians from paying between $111 million and $217 million in annual assessments, or a total of between $3.3 billion to $6.5 billion over a 30-year period. In terms of assessment percentages, reducing the $12 billion TICL option to $9 billion (which would reduce the amount of bonds potentially required for one year's storms from about $26 billion to $23 billion) would reduce the annual assessment percentage from about 4.77 percent to 4.2 percent for thirty years.

Changing the reimbursement under TICL to 70 percent of hurricane losses, rather than the 90 percent option that most insurers select, further reduces the liability of the FHCF and potential assessments, depending on the magnitude of losses. The state would still be liable for up to $9 billion of reimbursement obligations under TICL, but greater total losses would be required to reach this limit due to the change in the reimbursement percentage.

However, about 42 percent of the liability of the FHCF is currently payable to Citizens Property Insurance Corporation (Citizens), the state-created property insurer. Therefore, about 42 percent of the bill's reduction in potential liability to the FHCF would be shifted to Citizens. If Citizens incurs a deficit, it may also issue bonds funded by assessments levied on the same base of policies that are subject to assessment for the FHCF (subject to certain assessment amounts that must first be levied against Citizen's policyholders). Generally speaking, about 42 percent of the estimated savings in potential assessments by the FHCF would not be realized by Florida policyholders after accounting for the potential increased assessments by Citizens. Alternatively, Citizens may need to have a larger rate increase to account for the loss in FHCF coverage, when it begins charging actuarially sound rates on January 1, 2009, as required by current law and as determined by the Office of Insurance Regulation.

The $3 billion reduction in the amount of bonds that may be required to fund FHCF obligations increases the ability of the FHCF to issue sufficient bonds to cover its maximum potential liability and to reimburse insurers in a timely manner. This would

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[3] Other estimates by the OIR include Pinellas County (1.9 percent to 4.3 percent), Broward County (2.7 percent to 6.2 percent), and Palm Beach County (3 percent to 7 percent).
[4] The analysis assumes a 10 percent rate-on-line for private reinsurance.
[5] Other estimates by the Office of the Consumer Advocate include Pinellas County (2 percent), Broward County (2.2 percent), and Palm Beach County (2.3 percent).

lessen the need or desire for insurers to purchase private reinsurance to cover the FHCF "credit risk" as estimated by certain insurance rating organizations. This could have a favorable rate impact, depending on the extent to which OIR approves rates that include such expense.

Insurers would have to revise or renegotiate their private reinsurance to adjust to the changes in TICL coverage prior to the June 1, 2008 hurricane season. Depending on the effective date and the remaining capacity of the private reinsurance market at that time, this may prove difficult or costly for some insurers.

C. Government Sector Impact:

The potential liability of the FHCF is reduced by $3 billion due to the reduction in the optional TICL coverage by this amount. Changing the reimbursement to 70 percent of hurricane losses, rather than the 90 percent option that most insurers select, further reduces the state's obligation, depending on the magnitude of losses. See Private Sector Impact above, for further analysis. The reductions in coverage will also reduce the premium collected by the FHCF for TICL coverage. The FHCF collected $242 million in additional premium for the entire TICL layer in 2007.

About 42 percent of the bill's reduction in potential liability to the FHCF would be shifted to Citizens, as explained in Private Sector Impact, above.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Additional Information:

A. Committee Substitute – Statement of Substantial Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Banking and Insurance on March 25, 2008:

The Committee Substitute makes a clarifying change regarding the Temporary Increase in Coverage Limit FCHF coverage that is modified by the bill.

B. Amendments:

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.