

I. INTRODUCTION: WHAT THE ACADEMIC TASK FORCE WAS ASKED TO DO AND WHAT IT HAS DONE

The Academic Task Force on Hurricane Catastrophe Insurance for the State of Florida presents this report to the Governor, the Insurance Commissioner, the Speaker of the Florida House of Representatives and the President of the Florida Senate in accordance with the "Proviso" mandate of Specific Appropriation 1743A of the FY 1996 Budget of the State of Florida.

A. STATUTORY MANDATE

In the FY 1996 Budget of the State of Florida, passed on May 8, 1995, the Florida Legislature created the Academic Task Force on Hurricane Catastrophe Insurance and allocated funds from the Insurance Commissioner's Regulatory Trust Fund to the Collins Center for Public Policy to support the work of the Academic Task Force.

In Specific Appropriation 1743A, the Florida Legislature charged the Academic Task Force as follows:

From funds in Specific Appropriation 1743A, up to \$500,000 shall be allocated to the Collins Center for Public Policy for the purpose of establishing the Academic Task Force on Hurricane Catastrophe Insurance. The Task Force shall be comprised of the Chancellor of the State University System and the Presidents of the University of Florida, Florida State University, University of Miami and Florida International University or their designees.

The purpose of the Task Force shall be to comprehensively review the system of Florida residential property insurance markets, the Florida Hurricane Catastrophe Fund, the Florida voluntary residential property insurance market and the international reinsurance market, and make recommendations as to how said system can be best coordinated and/or restructured to meet the following needs:

- 1. To ensure that adequate hurricane catastrophe insurance coverage is available to Florida residents at an affordable price.**
- 2. To ensure that in the event of a hurricane catastrophe adequate public and/or private sector insurance and reinsurance is available to pay the claims of Florida residents.**
- 3. To provide necessary incentives for private insurers and reinsurers to increase residential property underwriting in Florida; and**
- 4. To ensure that the Florida system of residual residential insurance markets and the Florida Hurricane Catastrophe Fund do not act as a disincentive for insurers and reinsurers seeking to underwrite residential property in Florida.**

The Task Force shall submit to the Governor, Insurance Commissioner, Speaker of the Florida House of Representatives and the President of the Florida Senate report of its findings, recommendations, and proposed legislation, no later than August 15, 1995.

The Academic Task Force has convened several public meetings to review and approve the work of its staff and, in accordance with its public mandate, has published prior written notices of its meetings and invited public participation.

B. ACTIVITIES OF THE TASK FORCE

The Academic Task Force has undertaken the following activities between May 8, 1995, and September 30, 1995, to comply with its statutory mandate:

May 8, 1995

The Florida Legislature adjourns with a mandate to create Academic Task Force and appropriates up to \$500,000 to the Collins Center for Public Policy from the Insurance Commissioner's Regulatory Trust Fund.

May 9, 1995

The We Will Rebuild Foundation, Inc., of Miami provides a grant of \$50,000 to the Collins Center for Public Policy to permit the Task Force to begin its work prior to the availability of public funds after July 1.

May 15, 1995

Dr. Thomas A. Lynch begins work at the Collins Center for Public Policy as staff director for the Academic Task Force.

May 23, 1995

The Academic Task Force and its panel of technical advisers convene in a Florida Senate committee room in Tallahassee for an initial meeting and review:

- History and predictability of hurricanes in Florida;
- Florida hurricane financial exposure risks: public and private perspectives;
- Responses to catastrophic risks by other states and nations; and
- Overview of Florida's responses to catastrophe-related financial risks: Windstorm Joint Underwriting Association, Commercial and Residential Joint Underwriting Associations, 1993 Study Commission on Property Insurance and Reinsurance, Florida Hurricane Catastrophe Fund, private markets and companies, moratorium, 1995 Academic Task Force.

May 24-June 15, 1995

The staff of the Collins Center and technical advisers gather information, analyze issues, interview key people, and review information and proposals submitted by private insurance companies and their associations and by public agencies.

June 16-17, 1995

The technical advisers to the Academic Task Force convene in Orlando to hear presentations by private insurance and reinsurance companies, capital markets companies and public agencies and to review:

- Details about financial exposure risks of catastrophes in Florida;
- Private sector responses to post-Andrew perceptions of exposure risks, including:
 - Limits to financial capabilities of private primary insurance markets;
 - Limits to private reinsurance markets;
 - New financial products to bring more "risk capital" to insurance markets;
 - Proposals to transfer hurricane risks to the public sector;
- Public sector responses affecting Florida, including:
 - Need for government funds after a catastrophe to be used for emergency relief and rebuilding of public infrastructure rather than private homes;
 - Florida Hurricane Catastrophe Fund (Cat Fund);
 - Residential and Windstorm Joint Underwriting Associations (JUA's);
 - Florida Insurance Guaranty Association;
 - Florida Market Assistance Plan;
 - Proposed National Disaster Coalition and Clinton Administration proposal;
- Insurance Commissioner Bill Nelson's views;
- Initial evaluations of programs in operation in other states and of proposals for Florida, using statutory mandate and additional criteria defined by technical advisers.

June 18-27, 1995

The staff of the Collins Center and technical advisers continue their reviews of programs and proposals, evaluating them against the statutory mandate and additional criteria of the Academic Task Force. The staff continues to gather information and data, to consult with public agencies and private companies, to analyze the work of the technical advisers and to prepare summaries for review by the Academic Task Force. Using this information, the staff prepares initial "Building Block" recommendations for presentation to the Academic Task Force.

June 28-29-1995

The Academic Task Force and the panel of technical advisers convened at Florida International University in Miami to review:

- Alternative catastrophic financing plans and options evaluated by the technical advisers and staff: the "Building Block" approach as a tool for assessing the merits of various recommendations;
- Presentations on alternative options by industry and public agency experts: Department of Insurance, JUA's, Insurance Consumer Advocate, Hawaii Insurance Fund, large and medium private insurance companies and their associations, reinsurers, bankers and investment companies;
- Legislative perspective: State Representative John Cosgrove and State Senator John Grant;
- Major issues: private industry financial exposure "cap", Cat Fund "trigger point", adequacy of rates and rating procedures, variable options for rates (deductibles, co-payments), need for windstorm/hurricane JUA, consolidation of JUA's, spreading risks geographically and limitations on market shares in high-risk areas, pre-funding for cash flow, and others.

June 30 - July 24, 1995

The staff, technical advisers and consultants continue to review proposals, gather information, and prepare analyses of recommendations for review by the Academic Task Force. Based on extensive analysis and consultation, the staff prepares a statement of general principles, a recommended program with options on major issues (such as "caps") and several alternative programs for presentation to the Academic Task Force.

July 25, 1995

The Academic Task Force and technical advisers meet in West Palm Beach to review:

- Responses by insurance companies and by their representatives and associations to a request from the Academic Task Force for their views about the maximum capacity of the private homeowners' insurance industry in Florida to pay claims after a single hurricane catastrophe;
- Details about the Cat Fund;
- Opinions about remaining open issues, including industry "caps", geographic spreads of risk, the "insurability" of hurricane risks, individualizing risk analysis, JUA debt, phasing in recommended plan; and
- Detailed presentation of a first draft of "A Balanced Equation for The Future" and four major "Building Block" alternatives.

July 26 - August 3, 1995

The staff and technical advisers review the draft of "A Balanced Equation for Florida's Future", a proposed "Building Block" structure with industry "caps" and other components of a recommended program and prepare revisions for presentation to the Academic Task Force.

August 4, 1995

The Academic Task Force and technical advisers meet at Florida State University in Tallahassee to review the staff's draft of a Preliminary Report for presentation no later than August 15 to the Governor, the Insurance Commissioner, the Speaker of the House of Representatives and the President of the Senate. The Preliminary Report emphasizes private sector responses to providing hurricane catastrophe homeowners' insurance at affordable rates, backed by major public responses including a strong Cat Fund and a "cap" on industry financial exposure.

The Academic Task Force hears a variety of strongly-held views by representatives of insurance companies and their associations and by representatives of public agencies concerning important parts of the Preliminary Report, including the size (as opposed to the concept) of a private industry financial exposure "cap", the possibility of diversifying risks geographically by transfers of policies only to other private companies, ways to depopulate the JUA, tolerance of the market for flexible rates, the possible sizes of deductibles and co-payments and the mechanism for encouraging or enforcing the proposed program (such as a modified moratorium). The Academic Task Force also hears continuing discussion about the "insurability" of hurricane risks.

The Academic Task Force agrees to submit a Preliminary Report no later than August 15, substantially as presented to it by its staff but with several parts of the proposed program highlighted to indicate that additional review and public discussion are needed. The preliminary report will leave the size of the proposed industry "cap" within a large range of \$15-to-\$25 billion until it receives additional information about the "cap". To encourage that review and discussion, the Academic Task Force and its technical advisers will convene a public meeting again in September on the west coast of Florida. The staff will continue to gather information and conduct analyses for use by the Task Force in preparing a Final Report of the first phase of its work no later than September 30th.

The Academic Task Force also will recommend a set of studies for a second phase of its work which would continue until June 30, 1996, including monitoring of the proposed program and preparation of legislative proposals and detailed recommendations on mitigation actions, incentives and private/public responsibilities; standards for measuring a healthy, competitive private sector homeowners' insurance market in Florida; competitive rate-setting processes; consultations with bankers, capital markets and public/private decision-makers; and an aggressive, proactive education program.

August 5-13, 1995

The staff prepares a written Preliminary Report with substantial appendices for presentation on August 14th in Tallahassee.

August 14, 1995

The Chairman of the Academic Task Force presents a written Preliminary Report to the Governor, the Insurance Commissioner, the Speaker of the House of Representatives and the President of the Senate in Tallahassee.

August 15-September 19, 1995

The staff prepares a written Final Report for review by the Academic Task Force on September 20th in Tampa.

September 20, 1995

The Academic Task Force and technical advisers hold a public meeting in Tampa to review the draft of the Final Report and to receive additional comments.

September 28, 1995

The Academic Task Force hold a meeting by telephone conference call to review and approve the Final Report.

October 3, 1995

The Academic Task Force submits a Final Report for Phase One of its work to the Governor, the Insurance Commissioner, the Speaker of the House of Representatives and the President of the Senate.

October 1, 1995 - June 30, 1996

The Academic Task Force and staff continue with Phase Two of their work including monitoring the progress of Phase One recommendations and development of legislative proposals.

C. MEMBERS, ADVISERS AND STAFF

Members of the Academic Task Force on Hurricane Catastrophe Insurance

Dr. Charles B. Reed, Chancellor of the State University System of Florida,
Chairman

Talbot (Sandy) D'Alemberte, Esq., President of The Florida State University,
Tallahassee

Dr. John V. Lombardi, President of The University of Florida, Gainesville

Dr. Modesto A. (Mitch) Maidique, President of The Florida International University,
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Technical Advisers - Working Group for the Academic Task Force

Roderick N. Petrey, Esq., President and Executive Director, The Collins Center for Public Policy, Of Counsel, Holland and Knight, and Chairman, We Will Rebuild Foundation, Inc., Miami, *Chairman*

Dr. Krishnan Dandapani, Associate Professor of Finance, The Florida International University, Miami

Mr. Thomas David, Executive Director, We Will Rebuild Foundation, Inc., and Interim Director, International Center for Hurricane Damage Prevention and Mitigation, The Florida International University, Miami

Dr. Shahid S. Hamid, Associate Professor of Finance, The Florida International University, Miami

Dr. Robert Hunter, Director of Insurance, Consumer Federation of America, Former Commissioner of Insurance for the State of Texas and former Federal Insurance Commissioner, Washington, D.C.

Dr. Manfred H. Ledford, Associate Professor of Finance, The University of Miami

Dr. Sean Mooney, Senior Vice President and Economist, The Insurance Information Institute, New York City

Mr. Bryan Norcross, Meteorologist for WTVJ, Miami

Dr. David J. Nye, Professor of Finance, Insurance and Real Estate, The University of Florida, Gainesville

Mr. John Richards, Vice President, Policy Management Systems, Former Commissioner of Insurance for the State of South Carolina, Columbia

Dr. Robert C. Sheets, Former Director, The National Hurricane Center, Miami

Dr. E. Ray Solomon, Professor and Eminent Scholar in Risk and Insurance, The Florida State University, Tallahassee

Dr. John Wilson, Economist, J.W. Wilson and Associates, Inc. Washington, D.C.

Staff for the Academic Task Force at the Collins Center for Public Policy

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