

FINAL REPORT

"RESTORING FLORIDA'S PARADISE"



The Collins Center for Public Policy
September 30, 1995

FINAL REPORT OF
THE ACADEMIC TASK FORCE
ON HURRICANE CATASTROPHE INSURANCE

September 30, 1995

TABLE OF CONTENTS

I. INTRODUCTION: WHAT THE ACADEMIC TASK FORCE WAS ASKED TO DO AND WHAT IT HAS DONE.....	1
A. Statutory Mandate	1
B. Activities	2
C. Members, Advisers and Staff	6
II. WHAT THE ACADEMIC TASK FORCE RECOMMENDS: " A BALANCED EQUATION FOR FLORIDA'S FUTURE"	9
A. General Principles and Recommendations.....	9
STABILIZE AND STRENGTHEN PRIVATE MARKETS.....	11
(1) Institute a cap of \$20.4 billion on total private company exposure	11
(2) Permit more flexible rates for homeowners' policies	13
(3) Encourage flexible insurance products based on mandatory minimum hurricane/windstorm coverage	14
(4) Strengthen Florida Hurricane Catastrophe Fund.....	14
MANAGE RISKS.....	16
(5) Depopulate JUA's	16
(6) Diversify geographic risk concentrations.....	17
REDUCE OVERALL RISK EXPOSURE	17
(7) Individualize risk assessments.....	18
(8) Aggressively promote mitigation programs	18
SHARE RESPONSIBILITY	18
(9) Promote Federal responses.....	18
(10) Promote State and Local revenue sources	19
(11) Actively involve mortgage bankers.....	19
(12) Promote new capital market solutions	19
(13) Carry out proactive education program	19

Summary

The major goal of the Academic Task Force's "Balanced Equation" proposal is to re-establish a healthy, competitive private insurance market within two to five years. The major characteristics of a "healthy, competitive private insurance market" include:

- a) Coverage by financially strong private companies of most of Florida's homeowners for hurricane risks;
- b) Affordable, competitive rates consistent with widespread coverage of homeowners by private companies;
- c) Low numbers of the "truly uninsurable" in a single remaining Windstorm JUA;
- d) A strong Hurricane Catastrophe Fund; and
- e) Reasonable maximum market shares for any one company in high-risk regions of the state.

The "Balanced Equation" approach has the following benefits:

- Focuses on private sector solutions and keeps government in a supporting role.
- Increases capacity for coverage.
- Attracts more companies, more reinsurance and more risk capital to Florida.
- Reduces risk exposure for any one participant to manageable levels.
- Emphasizes mitigation and prevention.
- Requires participation by homeowners by offering education, incentives and choices.
- Offsets rate increases with deductibles, co-payments and mitigation credits.
- Expands the State's Catastrophic Insurance Fund.
- Builds on what we've already done and learned.
- Stays flexible to respond differently if private market fails to strengthen adequately.

B. BUILD LASTING SOLUTIONS OVER TIME:	20
First Priority and Second Priority Recommendations.....	22
(14) Monitor progress to determine if moratorium should be continued at least until November 1996 expiration or continued beyond that date	26
(15) If substantial progress has not been made toward creating a strong, healthy private market, establish a "Fair Share" program which will take effect in late 1996	27
C. ADDING UP THE EQUATION: PROJECTED CAPACITY PROVIDED BY PARTICIPANTS IN BUILDING BLOCK, FORMAT A MODEL FOR THE FUTURE	27
(1) Homeowners.....	28
(2) Private Insurance Industry Responsibilities.....	28
(3) Florida Cat Fund	29
(4) State and Local Government Revenues	29
(5) Federal Government Revenues	29

III. WHAT THE ACADEMIC TASK FORCE FOUND: KEY FINDINGS..... 34

A. Major Growth.....	34
B. Fear of "Big One"	34
C. Over Concentration of Large Companies and JUA's	36
D. Flexibility of Florida Department of Insurance.....	41
E. Homeowner Rates in Florida are Below Needed Levels	43
F. Florida Hurricane Cat Fund.....	46
G. Florida JUA	47
H. Florida Property and Casualty Insurance Market - Surplus.....	52
I. Proposed Balanced Equation - Participant Responsibility	59
J. If Recommendations Fail, State Involvement Must Increase	64

**IV. BENEFITS OF THE PROPOSED "BALANCED EQUATION"
AND RESPONSES TO STATUTORY MANDATES 71**

A. General Benefits	71
B. Responding to Statutory Mandates to the Academic Task Force.....	72

V. APPENDICES

Appendix 1: Technical Advisors' Evaluations of Proposals for Reform
Appendix 2: An Analysis of the Residential JUA
Appendix 3: An Analysis of the Windstorm JUA
Appendix 4: Industry Response on Claims Paying Capacity
Appendix 5: Detailed Recommendations for Homeowners and the Private and Public Sectors
Appendix 6: Reducing Statewide Market Concentrations
Appendix 7: Profiles of Florida Urban Area Homeowner Policy Rates
Appendix 8: Bibliography

Table of Figures

Figure 1: Academic Task Force on Hurricane Catastrophe Insurance.....	10
Figure 2: Time Frame for Implementation of Task Force Recommendations.....	24
Figure 3: Academic Task Force Proposed 1995 Building Block Sources of Coverage - Homeowners, Private Insurance, Catastrophe Reinsurance & Government.....	28
Figure 4: Growth in Florida Claims Paying Capacity With Existing Catastrophe Fund Forecast and an Insurance Industry Indexed 1995 Cap of \$15 Billion.....	31
Figure 5: Task Force Forecast of Catastrophe Payment Capacity From All Sources With a 15% Cat Fund Enhancement.....	32
Figure 6: Task Force 1995 and 2005 Forecast of Catastrophe Payment Capacity From All Sources With a 15% Cat Fund Enhancement.....	33
Figure 7: Allstate State Farm and Nationwide Homeowner Insurance Market Share in Select High Risk Counties (1993).....	36
Figure 8: 1995 Percentage of County Homeowner Exposure in the RPCJUA.....	37
Figure 9: Herfindahl Index for Top Eight Property and Casualty Firms in Florida.....	39
Figure 10: Herfindahl Index for Allstate and State Farm (1988-1994).....	39
Figure 11: August 1995 Percentage of Total RPCJUA Exposure for Select Counties.....	41
Figure 12: Multiple-Peril Homeowners' Annual Policy Rates in Voluntary Market (For a \$100,000 Wind Resistive Dwelling).....	43
Figure 13: Multiple-Peril Homeowners' Policy Rates in Voluntary Market as a Percentage of Real Per Capita Personal Income (For a \$100,000 Wind Resistive Dwelling).....	44
Figure 14: Comparison of Home Owner Casualty Insurance Premiums for a \$150,000 Frame House <i>Miami</i>	45
Figure 15: Comparison of a Home Owner Casualty Insurance Premiums for a \$150,000 Frame House <i>Tampa</i>	45
Figure 16: Comparison of Home Owner Casualty Insurance Premiums for a \$150,000 Frame Home <i>Major Cities & State Average</i>	46
Figure 17: Forecast of Florida Catastrophe Trust Fund Claims Paying Capacity (Assumes No Losses)*.....	47
Figure 18: Number of Residential JUA Policies.....	48
Figure 19: Residential JUA Policies by Type of Policy.....	49
Figure 20: Florida Windstorm Underwriters Association Policies in Force.....	51
Figure 21: Florida Windstorm Underwriters Association Liability in Force.....	51
Figure 22: Premiums Earned and Losses Incurred in Florida - All Companies Homeowner Lines Only.....	53
Figure 23: Premiums Earned and Losses Incurred in Florida - All Companies All Lines Written.....	53
Figure 24: 1993 Additional Premium Writing Capacity of Florida's Largest Homeowners Insurers.....	56
Figure 25: 1993 Additional Premium Writing Capacity of Other Large National Property Insurers Licensed in Florida.....	56
Figure 26: Allstate and State Farm 1993 Direct Premium Earned in Florida by Product Line.....	58
Figure 27: Allstate and State Farm and Florida Property and Casualty Industry Direct Premiums Earned by Product Lines 1993.....	59
Figure 28: Florida Hurricane Catastrophe Insurance: A Balanced Equation for Florida's Future.....	60
Figure 29: Summary of Task Force Recommendations for Each Sector of the Balanced Equation Coverage.....	61
Figure 30: Florida Hurricane Catastrophe Insurance: A Balanced Equation for Florida's Future.....	63
Figure 31 - Option 1 - Industry Stop Loss.....	67
Figure 32: Option 2: Strict Quota Share.....	68
Figure 33: Option 3: Modified Quota Share.....	69
Figure 34: Option 4: Strict Quota Share.....	70
Figure 35: Task Force Recommendation Continuum.....	71