

300 WORDS

(more or less) about

FLORIDA'S HURRICANE CATASTROPHE FUND

PROBLEM—In 2007, the Florida Legislature greatly expanded the potential liability of the Florida Hurricane Catastrophe Fund (FHCF or Cat Fund), by allowing insurers to purchase an extra layer of reinsurance from the Cat Fund. Should a major hurricane hit Florida before this potential exposure is reduced, assessments estimated at \$1.8 billion per year for 30 years could be triggered to pay for these losses.

BACKGROUND—All insurers that write residential property insurance in Florida are required to purchase a layer of reinsurance through the FHCF. Since the FHCF is both not-for-profit and tax exempt, the FHCF's reinsurance is less expensive than that found in the private reinsurance market. During the aftermath of the devastating series of storms in 2004 and 2005, the cost of private reinsurance increased dramatically, driving up the already high cost of residential property coverage. In 2007, the Florida Legislature passed CS/HB 1-A, which, among other things, allowed insurers to buy an additional layer of reinsurance, to a maximum of \$12 billion. This new layer of reinsurance was called Temporary Increase in Coverage Limits (TICL) and was available in \$1 billion increments. TICL had a co-insurance element, which, at the option of the insurer, would pay 45, 75, or 90 percent of covered losses. The TICL is temporary in nature and is scheduled to be available only until May 31, 2010. However, because of the real potential for catastrophic loss and the accompanying potential for assessment, many legislators agree that something needs to be done to lessen this risk.

DISCUSSION—In an effort to lower the potential assessment on Florida policyholders, HB 7021 by the Jobs and Entrepreneurship Council and SB 2156 by the Senate Banking & Insurance Committee would do the following:

- ◆ Lower the TICL option coverage from \$12 billion to \$9 billion by eliminating the \$10 billion, \$11 billion, and \$12 billion coverage options;
- ◆ Eliminate the current TICL co-insurance limits of 45, 75, and 90 percent and replace them with a 70 percent level of coverage;
- ◆ Change the FHCF's oversight from the current process of reporting to the executive director of the State Board of Administration (SBA) by making it a division of the SBA, which reports directly to the governor and Cabinet. This would better control the process by which the FHCF operates and purchases bonds in the private market.

This 25 percent reduction in TICL coverage, coupled with the 70 percent co-insurance provision, is expected to save Florida policyholders an estimated \$200 million per year in assessments in the event of a major storm triggering a full TICL reimbursement.

SOLUTION—Support the passage of HB 7021 and SB 2156.

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