

Frank Lavallo, ARA

Windstorm Damage Modes

Once openings are breached we can have roof failures so protect the envelope
Hurricane Andrew was the turning point for modern building codes and keeping home in tact. Survey inf and ins claims data over the past two decades and the 2002 study developed a list of 7 primary features and a 2008 study that included more.

Rate differentials – what are wlm rate differentials – applied to windstorm premium
Weakest house with a \$6 loss cost and this was the reference house and take a \$4 loss cost and divide 4/6 and get the relativity.

How are wlmrd's calculated: look at the distances, compute the physical damage and take that to insured loss and then rate differential.

Example building performance simulation (from model outputs)

Lab data of impact tests of shutters and impact resistant glazing and looked at field data – newer roof covers and attachment makes a difference. Roof shape makes a difference of the losses due to the aerodynamics.

How is eligibility established for a wlmrd? Inspection process and this inspection process using the UMVI (mitigation form)

UF /FIU are working on mitigation techniques – possibility

We do not have a coordinated effort with mitigation. The insurer should have a reduced cost.

Current status – we believe that there are 2 million or more homes in FL receiving WLMRDs and the current credits exceed 50% of the wind premium. Homeowners can take this form and its portable. It is possible to qualify without an inspection if built to certain code. There was a challenge to the WLMRD regarding strength of windows, doors and skylights. The FL bldg. code continues to get updated and wlm needs to be a part of that. There is science out there and research out there. Single family homes – need for a separate form.

The system isn't being funded to become a program through annual funding – this needs to begin 2013

The inspection process needs attention, the system isn't static – very dynamic.

The original research that led to the WLMRD was funded by the RCMP and one idea on the funding would be to redirect the rcmp funding to maintain a wlmrd program. Currently \$7 mil comes from the cat fund and \$3.4 mil mitigates single family home and allocate \$1.4mil for maintaining and improving the wlm system .

Hager: in a predictable fashion, folks who receive credits think it is a right program. Based on involvement in the program, what is your confidence as to the credibility of this program?

Lavalle: it's not perfect and the alternative is no credits at all and there is a difference between mitigated and unmitigated homes. You can argue over decimal places but the data shows there is significant difference in the performance of these buildings that are strengthened.

Santiago: Homeowners can

Newer homes that have been permitted after 2002 can qualify for discounts based on the fact that they were designed and built after the code implementation.

Santiago: would a homeowner have to initiate a request ?

Lavalle: don't know

Rader: asking for \$1.4 million to fund a mitigation program?

Lavalle: just asking to redirect the RCMP money – would have a greater use than the earmark to mitigate

Rader: I thought that the homeowner pays for the inspection- are you asking for the state to subsidize the inspections?

Lavalle – no – just to maintain the science

Moraitis: when is the last time these standards revised?

Lavalle: 2002 and 2008 – the current discount program is based on 2002 study. Some co's have adopted portions of 2008 study. And the inspection form was updated in 2012 but with minimal support from engineering community

Moraitis: other states have programs?

Lavalle: Mississippi – disaster relief money but FL is way out in front

Goodson: you made a comment that this \$1.4 mil would be used to develop what?

Lavalle: used to create material and standardize the information – the form is created but no training info – nothing done in a consistent standardized way

Goodson: not being done correctly now, can you tell me how much it would take to train these folks properly?

Lavalle: this could be there responsibility – oir is involved, rcmp is invoved. There is no ongoing clearcut provision – should be a board to over see this.

Goodson: if you did study in 2002 and 2008 and in 2008 the FBC changed – local bldg. officials are inspecting these homes – how much more money do we need to tie a 2/4 to a truss?

Lavalle: 10% to 20% of the homes were built to FBC – the rest aren't

Nelson: we put new shingles on and I added the 2ndary water barrier and gave me a credit on insurance – we had a home grading scale and folks don't realize the difference in gable vs hip roof. We'd like to get back to that and get folks to voluntary

Broxson: we have given credits out like candy – have you done a study of a repeat of 04 and 05 – what would the affect be?

Lavalle – we have studied that

Caldwell: We have folks that are inspecting these homes – right now our prop appraisers have a dbase – do they have a dbase of these features?

Lavalle: we rely on that when we can – age of roof, etc and we look at those but its fragmented and not every county is easily accessible and doesn't cover all these features – it's a good source but not comprehensive

The rate differential considers the relative risk of the stronger house vs the weaker house.

Ken Ritzenthaler: in 2003 the ofc released suggested credits. These were based on 2002 study and we tempered them by 50%.

In 2006, we were required to remove the 50% tempering . then we adopted rule 690-170.17 and we adopted the 1699 form with the suggested credit that were doubled.

Recent wind mit filing activity:

-two filings with alternate credits – one was submitted in late 2010 and the other in late 2011. I have talked to other insurers to do additional alternate studies. We also have insurers that have filed screen enclosure coverage ratings and we have also see changes to detached structure pulling out the premium for the structure and in this case not applying if not warranted.

Moraitis. Were the credits different? Ritz said lower

Gilway: we support WLM credits and we are conducting an alternate study. The reality is we support the credits and we support the incentives necessary. The issue are the credits appropriate for the mitigation occurring. From Citizen perspective there are more challenges than typical. Wind mit credits were doubled in 2008 when tempering was removed. As we doubled the credits, they were doubled on inadequate/frozen rates. The credits are significant and the impact was onerous. While we reduced the prem/increased the credits, the reinsurance didn't consider the PML reduction associated with the credit and the cat fund didn't consider it either but the cat fund has now considered it.

Gilway – the accuracy of the credits has been a focus as well. It's a financial issue – are we getting the information for the appropriate credit – it's a public policy issue. Is the consumer appropriately staffed? The level of mitigation – truly happening on the home?

We are in the process of conducting a study using AIR. We have preliminary indications relating to the accuracy of credits. The initial reductions indicate a reduction in the amt of credits that are valid. If we apply those credits and then we have an issue and if we reduce the credit, we can't increase premium over the glidepath. We haven't made it a priority because we can change premium. For citizens the wind prem is inadequate for the risk.

Here's an interesting number – in 2012, we provided \$1 billion wind mit credits and that's an increase of

Any 1 to 4 unite home built after 2002 receives at least 68% credit to wind premium and approx. 8.3 pct of citizens HO3 and HW2 policies withwind coverage were built on or after 2002. Credits are multiplicative. You can end up with a 92% credit on wind premium.

Financial impact of wlm:

12/31/12 – 72 % personal res policies w wind as a covered peril for a wind mit discount

67% of prm policies w/wind qualified as of 2010

the book increased by 25% over the two year period – not saying there is a direct relationship between the 60% number, etc – difference of 13% increase

reduction in prem from wind credits

2010 38% and in 2012 46%

the avg wind premu increased from \$1029 v \$1545 over two years

total of 430k residential proeptrties were identified for reinspections and conducted inspections on 350k and 17k couldn't be inspected

gross prem: 204 million

the average pct change ws 22% and 9 pct decrease and 73% had an increase - much of the change that occurred was a result in the 2010 form when the new criteria in the 2010 form were introduced you reinspect in the new criteria and have a difference compared to original data.

Larry Lee: we have figa, citizens and the cat fund. Mr. Chariman, we have 3 entities doing the same thing and commission a study if we can deal with this in a better way?

Gilway: can we step back and take a comprehensive structure in florida and what you are suggesting is consistent with the idea of stepping back. we can't manage 1.3 million policises - we look at 61k sinkhole endorsements, 250k homes over 50 years old - its like various compaies ina company. We need to approach this differently and aggregate it. This is an area we would benefit

Lee: what weould we need to do to get the ball rolling in the direction

Gilway: I haven't taken time to go back and look at the prior studies - give us an opportunity to take studies that have been conducted and present a study on the findings and further recommendations we have.

Santiago: we are getting info from citizens and you are one of many those providing insurance and the data you are providing is citizens. industry wide?

Gilway: in 2003m the deicionsn was made to reduce the level of credits by 50%.

Santiago: is there a requirement to do this alternate study and reinspections?

Gilway: we are going to an industry approach and the industry approach is to prior to writing a new piece of business you need a wind mit credit and the consuer will purchase inspection

Santiago: there's an option to qualify without an inspection - anything newer than 2002 is automatic

Gilway: it's only 8% that is 2002 newer

Nelson: there was abuse and forms filed that weren't right and we r moving ahead There was time when you could have 70% reduction in wind prem and we have stopped that.

Gilway - homes - the major criteria was homes with credit of \$1k or more. All thse homes have been reinspected. As of this year we don't reinspect and we r movig inspections home. Now, wind mit inspection is moved to the front end.

Gilway: citizens has 26% homes in the state and dbase is solid. We have solid dbase and air dbase and we have dbase that can be credible. If we were to rollout an increase and recommend a decrease in credits and increase in prem to oir then we can't benefit from that because of our cap. There is no benefit moving forward however except safety of home.

Hager: you mentioned you are laboring over frozen rates and how does that affect you and its affect on your financial footing

Gilway: the reality is when I was ceo for Maryland casualty – I sat down and decided where to apply my capital to get the best return. You didn't see Maryland casualty here because I couldn't make a return. We talk about the need to get outside competitors here. I would not propose that we double the rates in hernando county. To me it isn't a citizens decision – it is a legislative decision in terms of how quickly we need to get to the right rate. Are we comfy with the progress we are making ? I would say not – do we do something drastic and suffer the consequences of the economis of that? Of all the proposals on the table how aggressive can we afford to be to charge adequate rates? Louisiana program and other plans will be shared this week. Legislation that says that rates must be 10% higher than the highest rated policies in the state and LA is 170k polices while FL is over 1 million

Broxson: credits are the same as the standard market – standard market may choose to refuse the risk with a 70% credit. Has there been a discussion of changing the creidts than the standard?

Gilway: the AIR study attempts to get at this point. Are the categories correct? Are the percentages correct.

ASSESSMENTS – Sharon Binnun, Citizens CFO

To the extent we correct credit, rates go up so we aren't competitive but the cap prevents this.

2012 claims paying ability: what dollars we have to pay claims –

cash: \$6 billion in liquid assets

risk transfer: \$1.5 billion – we paid \$49 million in single transaction

coverage from the cat fund:

\$20 billion in claims paying and \$5 b we would have to repay

the PML for 1/100: \$24B

in 2013- \$19 b and a little more reinsurance and less cat fund coverage

exposure reduction and depop, the pml will be \$22 b down from \$2 b

she discussed assessments and why consumers can make a choice to avoid the assessment.

She discussed the regular assessment – she gave kudos to the legislature for reducing the assessment from 18% to 2%. It means that if a bad one comes instead of 18% cash, now its only 2%. The emergency doesn't adversely affect the industry.

If all 8 storms hit in a single year that is less than 1% probability. If you have small events you can't trigger the cat fund or reinsurance so one big storm is better for Citizens if we had those events and the 8 storms were different events, 80% would be paid from citizens surplus and each storm is so small it wouldn't trigger the cat fund and there would be 1% .

2017 ends all assessments which were triggered in 2007.

Lee: what is our deductible

Binnun: in the cat fund, coastal acct: \$1.9 billion so a single storm would need to hit that.

Binnun: an Andrew was a 1 in 50 with a 2 pct probability . if we charge the maximum assessment in year one 16% and 5% by law and if we had \$17 bil of emerg assessments,we'd issue bonds and soften policyholder impact – if we issued bohnds it would be 3% per year for 10 years and 2% for 20 years.

CAT FUND

Nicholson discussed the role of the cat fund is to provide ongoing capacity in the marketplace and stabilize the reinsurance market. Very important to have a level playing field.

There are \$2.1 trillion exposure with 6.4 million risks. 161 insurers and \$1.577 billion in residential premium.

TICL – that limit started in \$12 b in 2009 and in this hurricane season it'll be \$2 bil and we will supplement the acct balance with pre-event notes.

We need to bond \$7.12 B and we are pre-event bonding as well/studying. Potentially pre event notes are \$2 bil and may come up on 1/23.

Issues, topics and concerns

Emerg: 6% /yr and up to 10% for all years. \$34.6 billion assessment base excluding work comp and med mal.

Concern: market volatility – subsequent season capacity is a concern and the impact on policyholders. Market access – can we get the bonds we need? Can we respond to a large events response?

What is the probability to have a hurricane to prevent the republican party?

Larry lee: cat fund, figa, citizens – if you look at three combined and there is strength with these.

Nicholson: yes - Data collection, rate making and how modeling is done .

Meenan: FIGA was created by the FL leg to pay the claims in FL

Meenan: 4 sources – estates of insolvent insurers, reinsurance that goes directly to figa, assessments,

\$472 million for 10 ins co's in 1992 and half

since 2004 – 27 insolvencies – 10 were homeowners co's – we have 500 sinkhole claims in figa and have reserved \$100 mil to pay these sinkhole claims.

We can raise \$320 mil in emerg dollars – 30 years \$4.4 billion. There is limited ability to assess and we would not want to take the 4%

Poe – took those 300,000 policyholders and citizens assumed them.

Santiago: do we have any data that shows if these co's who are insolvent serve polichylders in a certain geographic area – can we map that? Can we assume that certain folks that write certain policies have become insolvent.

Meenan: we don't know which co's will go under – they go under with fraud and mismanagement -- very hard to target . storms in south florida can cause insolvencies.

Santiago – insolvent for claims?

Meenan: yes – not having money to pay claims

Moriatis: regular assessment every year

Meenan: figa/cat fund pre-storm assessment – figa does post storm assessments. We have been good at handling

Moriatis: there are years with no assessments

Meenan: insolvencies can take years – we can get a check for past years and there can be a small homeowners co and we don't assess at all because we have checks coming in

Moriatis:

Meenan: regular pays any kind of claim – med mal, work comp

Emergency assessments – homeowners only and coming in to hurr Andrew we only had 2% - and if we use the full 2% to pay off those bonds and we only aim emerg assessments at homeowners.

Wood: figa's impact on marketplace in terms of being able to attract private capital and is the assessment mechanism to be reformed?

Meenan: unlike the cat fund every state has a guaranty fund. The leg designates that insurers are on board. I think based on size of losses, 4% isn't bad and may be a point or two. We don't have recommendations to reform it – I will tell you that we are hoping that our claims guys are right. We are loathe to assess the companies.

Wind mitigation from a private insurer

Werner Kruck – discussed history of wind mitigation – most important is that a home is only as strong as its weakest link. Mitigation is engineering.

The management of mitigation is an issue –the statute has put the entire mitigation process on the OIR. This is an organization to regulate insurance not mitigation. There are inconsistencies on how things line up in the sytem. Lavallo is correct when condos are having to have

Tax assessors dbase don't have standardized detail we need. As an illustration, less than 20% of the time can we get A frame vs other types of frame.

We use the same credits as citizens – 2002 and newer but here are three credits they can't get – water resistance and opening protections. We did reinspections and our results were consistent with citizens. the 2010 form v 2012 form and the 2012 form required pictures.