"State of the Florida Insurance Market Summit"
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Prepared Remarks:
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Introduction:

I would like to take this opportunity focus on some highlights of Florida's insurance market place.

Legislative Overview:

As most of you in our state know, March signals the start of this year's Florida Legislative Session.

Insurance-related topics are being discussed in committee meetings for both the Senate and the House.

The Office has been providing information and presentations to legislators on such issues as the property insurance market and the impact of federal health care reform on our state.

In December, I appeared before the **Senate Banking & Insurance Committee** and was asked to return in January with a set of recommendations to strengthen the Florida property insurance market based on guidance provided by Chairman Simmons and individual members and sound insurance principles.

Why is now a good time to act?

Before presenting the set of principle-based reforms, I'd like to first share with you what I believe makes this a particularly opportune time to act.

1. There has been a leveling off of new construction and growth in exposure.

Florida has more than $2 trillion of insured exposure

2. The domestic marketplace is resilient.

Even though they were impacted by the downturn in the financial markets and demand by rating agencies to increase the capital base for multiple storms over the last several years, they are bouncing back and have returned to profitability.

3. And, finally, reinsurance is available as additional capacity for Florida's domestic marketplace

- Despite 2011 being the second worst global cat year on record, reinsurers still report capital levels sufficient to satisfy global demand and, in many cases, increase capacity to our market
- Reinsurance provides a critical risk-sharing backdrop for insurers providing coverage to Floridians. Florida domestics purchase a substantial amount of reinsurance.
- FL domestics tap into billions of dollars in capital via reinsurance & other risk-transfer mechanisms
- Access to over $23 billion to pay claims & protect Floridians when you combine surplus and reinsurance purchased at a cost of $2.75

What should Florida do in response?

As I shared with the Committee there are four principle-based reforms.

Principle #1—Restructure alternative markets to become residual markets providing quantifiable risk management for FL.

Why is this necessary?

No other state has a residual market representing such a significant share of the property insurance market as does ours. Citizens is currently too large, as evidenced by their significance as Florida's largest property insurer representing more than 21% of the total insured value of the market.

Citizens is writing thousands of new policies a week.

No state has a residual market attempting to meet all of the residual demands.

With rates lower than many private carriers, Citizens is stifling competition.

This exponential growth pattern is impeding voluntary market growth and flow of additional capital into our insurance market.

What should we do to effect change?

Florida's residual market should be a true residual market and look like those in other states. Break up Citizens by peril and return to separate residual market entities.

By reducing the size and scope of Citizens and having peril-specific entities, expertise and opportunities can be focused on the very distinct perils.
The three perils include wind risk (coastal account/beach plan), true residual market risk and a sinkhole facility.

For the Wind Market Risk (Coastal Account/Beach Plan):

- Separate the coastal account to allow for maximizing resources

For the True Residual Market Risk:

- Reestablish Citizens with a rating plan based on the top 20 private writers & transitionally adjust rate cap (incremental increases for glide plath)
- Implement a clearinghouse – enforce current law requiring policies with an offer of coverage within 15% of Citizens rates ineligible for coverage with them

Create a Sinkhole Facility

- If necessary create a sinkhole facility for what may be uninsurable risk.

If instituted, I believe a restructuring of Citizens will:

- Work to reduce the assessment exposure to Florida taxpayers
- Increase the opportunity for transfer of risk to the private market; and
- Allow the boards and staff to focus on the major issues of the individual peril.

In addition, risk-sharing arrangements can be used to allow Citizens to share risk with the private industry

Principle #2 – Maximize the risk-bearing capacity of the private market – including attracting new capital

This is a great way for smaller insurers to access reinsurance.

1. Establish a reinsurance pool – an innovative mechanism to aggregate demand for risk capital from private insurers and place in the private market.

- Possible results - Expanded capacity and/or stabilized pricing for FL domestics
- On a related matter, the FHCF should also explore opportunities to mitigate impact of consumer assessments due to any projected shortfall

2. Institute a rate band for private carriers – multiple options available – send a positive message to the investment community.

3. Expand consent to rate – companies currently have this ability, but it can be modified to give more flexibility

4. Modify current rating rules to align mitigation credits to a company's modeling results. The current one size fits all does not make sense.

Principle #3 – Promote consumer choice, responsibility and market power

1. Let consumers choose deductibles and coverages appropriate for the risk

2. Expand possibilities for tailoring policies and negotiating price (consent to rate)

3. Expand the concept of a clearinghouse – this gives consumers the ability to find coverage and lowers search costs for producers

Principle #4 -- Enhance meaningful risk mitigation programs

1. Market incentives – could be accomplished in a joint effort between private sector research firms (IBHS, FLASH), reinsurers modelers & insurers, public sector research facilities (UF, FIU) and the state itself.

By modifying current rating rules to align to company's modeling results, markets can signal which mitigation efforts and investments are more valued and useful.

2. Prudent building codes and appropriate land use and development

3. Research and ongoing education to promote mitigation beyond just insurance

The three caveats of timing, pricing and execution will need to be seriously considered before implementing any of these reforms.

All of them are based on sound insurance and economic principles which could lead to positive change in the insurance marketplace.

However, I do not want to understate the vast impact these reforms could bring to policyholders in a challenging economic environment.