

Long Term Solutions Presentation

By

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Hello, my name is Scott Johnson; I'm Executive Vice President of the Florida Association of Insurance Agents. I'd like to start by thanking you for this opportunity and by commending each of you for the time and effort you have invested in this task force. Yours is a thankless job. But, it is a necessary one and I believe your final work product will go along way to improving Florida's hurricane insurance problems.

Because my time is short I put some information packets in front of you that you can take back and read at your leisure and that I might refer to in just a moment.

Before I tell you what our proposal is I'd like to tell you what it is not.

1. It is not the Federal Flood Program and has nothing to do with the Federal Program.
2. It is not a recommendation of the Florida Alliance on Hurricane Insurance. That Alliance is a broad based coalition which will have a set of legislative and regulatory recommendations for you and Florida lawmakers to consider. It was assembled by FAIA and the Florida Insurance Council but it has not yet developed consensus on matters such as this.
3. This is not the proposal announced early last month at a press conference held by Democrat House members.
4. Not only is it not the exclusive idea of FAIA it isn't cast in stone. It is flexible and some of it comes from ideas offered by others or uncovered during meetings of the

DFS task force appointed by CFO Gallagher immediately after the storms last year. In fact, some aspects of it were originally suggested by Mr. Gallagher.

5. Finally, it does not impact anything other than the approach used in Florida for handling the commercially uninsurable peril of catastrophic wind. Which is to say that other things will still need to be done--FAIA will work hard to:

- Achieve a national catastrophe fund and indeed has sent a delegation to DC for the last seven years to do so.
- We will put together a grassroots effort to pass a Constitutional amendment to Florida's constitution protecting Florida's Cat fund from inappropriate uses. We support Senator Alexander's bill which would put such a proposition on the next statewide ballot.
- We support reasonable building codes and strengthening their enforcement and better education for those who must comply with those codes.
- We also support non-insurance incentives for homeowners to retrofit their homes.
- And we support reasonable efforts to restrict building on Florida's vulnerable coast line.
- We support rate adequacy in both the residual market and the voluntary market and reasonable, consistent regulations for the industry.

Our proposal, called the Windstorm Coverage Fund has been in the works for over a year. It is the result of an exhaustive study of every residual market approach in the United States, including the Federal Flood Program, and those of several foreign countries.

That study (jointly funded by the Realtors) also examined Florida's various approaches used since 1992, including Citizens and the FHCF. These analysis and conclusions are reflected in the report by Jay Newman called "The Winds of Change" I have a copy here, but as you can see it's large and still at the printers. I will send it to each of you when it's done.

Anyway, it is from this research and our own experience and expertise that we developed our proposal. A recognized actuarial firm with experience in Florida's property marketplace has examined our proposal verifying its fiscal soundness and efficacy. In your packets is a copy of the actuarial report. The full text of both is available on our website at www.faia.com.

Now, to what FAIA proposes. It's called the Windstorm Coverage Fund or WCF and it has three elements: An administrative portion, rapid cash build up portion, and various exposure reduction concepts.

1. Put the HRA of Citizens behind the companies, allowing carriers to perform all the HRA's administration and policy functions they currently perform statewide and for selected risks in the wind pool areas.
 - This leaves only the risk bearing, rating, storm modeling and exposure reduction functions for the WCF. Call this new entity the Windstorm Coverage Fund.

- Companies keep a portion of the wind premium as a fee for services and are responsible for paying their agents.
- Also, companies can retain as much of the “Wind” exposure (and related premium) as they want and, along with it, the responsibility to pay claims from those retained funds.
- The company forwards to the WCF any premium for the amount of wind that it does not retain; then, after a storm it accesses the WCF for reimbursement of losses that exceeded the premium it retained to pay wind losses.
- The WCF holds the company harmless for legal actions that may arise as a result of the carrier operating within its approved scope on behalf of the WCF.

2. Fund a rapid cash buildup for this fund in two additional ways:

- Access General Revenue Funds as follows:
 - Use storm related sales tax in positive surplus years to fund against a future assessment
 - Use storm related sales tax in negative surplus years to reduce the need for an assessment.
- Initiate a variety of exposure reduction initiatives outlined in attachment A.

In summary, let me review what we think the benefits of the WCF approach are.