

## CFO Sink's Proposed Florida Hurricane Catastrophe Fund Reform Legislation

October 16, 2007

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### Summary of Legislation

1. Reorganization of the FHCF to report to a "Board" consisting of the Governor & the Cabinet.
2. The FHCF makes recommendations to the Board based on an evaluation of the capacity of the reinsurance markets & the feasibility/risk associated with bond transactions relative to the current financial markets.
3. The Board determines what FHCF optional coverages to offer, the limits, and the pricing (subject to statutory constraints).
4. Creates a deadline of February 15 of each year for the Board to specify the parameters for optional coverages.
5. Residential property insurers would have the option to purchase their reinsurance from the FHCF unless they can obtain it at a lower price from the private market.

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### Objectives of the Legislation

- To allow insurers to know what their FHCF coverage and pricing will be in advance so that insurers can more effectively negotiate with private reinsurers.
- To allow the Board to determine the "best" level of FHCF coverage to offer given the market capacity and pricing of private reinsurance balanced against the capabilities of the FHCF to finance large losses with bond transactions.
- To price FHCF coverage to be more competitive with private reinsurance in order to encourage private market participation in the optional coverage layers (transferring risk back to the private market).
- To provide a mechanism to promote stability and greater certainty in the residential property insurance market by reacting timely to market conditions.
- To limit the amount of bonding and the potential assessments on Florida policyholders.
- To reorganize the FHCF to report to the Governor and the Cabinet.

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### More Specifics

1. Reorganization of the Florida Hurricane Catastrophe Fund (FHCF)
  - Creates the Division of the FHCF within the SBA.
  - The "Board" of the Division shall consist of the Governor and the Cabinet.
  - The Board appoints a Director.

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### More Specifics (con't)

2. The Division of the FHCF evaluates the financial markets and the reinsurance markets for the purpose of making a recommendation to the Board.
  - The Division may contract with financial and insurance consultants.
  - Provides (in a separate bill) a public records exemption and a public meeting exemption so that the Division can receive documents from and have meetings with insurers, reinsurance brokers, reinsurers, reinsurance consultants, agents, insurance industry associations, rating agencies, financial advisors, bond counsel, and bond underwriters.
  - Meetings and records exemptions are needed to avoid anti-trust issues by preventing information from becoming public and being used to adversely impacting competition, and from adversely impacting future bond transactions/price negotiations.

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### More Specifics (con't)

3. The Division of the FHCF makes a recommendation to the Board regarding:
  - Which of up to three FHCF optional coverages to offer: 1) TEACO, 2) TICL, and/or 3) the up to \$10 million option for Limited Apportionment Companies.
  - What limits of coverage associated with the FHCF optional coverages to offer. However, the limits cannot be greater than what is specified in current law nor can the retentions be lower.
  - What the pricing for the FHCF optional coverages will be. However, the pricing cannot be lower than that provided for in current law.

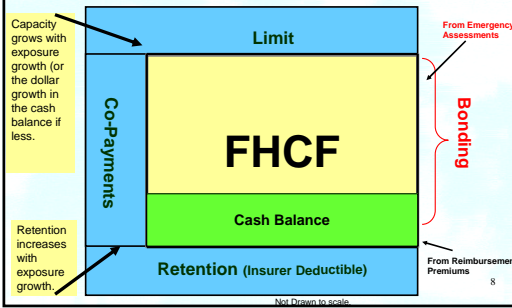
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### More Specifics (con't)

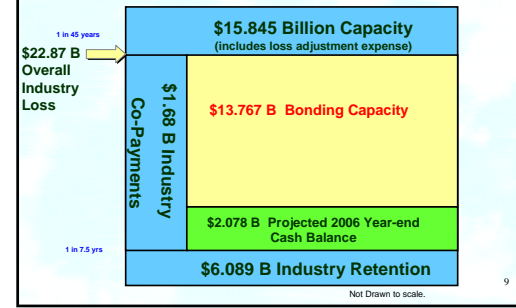
- The "Board" shall be authorized by the Legislature to determine the FHCF optional coverages, their limits, and their pricing by February 15 of each year.
  - The Board must approve the FHCF optional coverage parameters by a unanimous vote of all members.
  - In situations where the financial or reinsurance markets change due to unforeseen circumstances, the "Board" may modify its coverage specifications prior to April 1.

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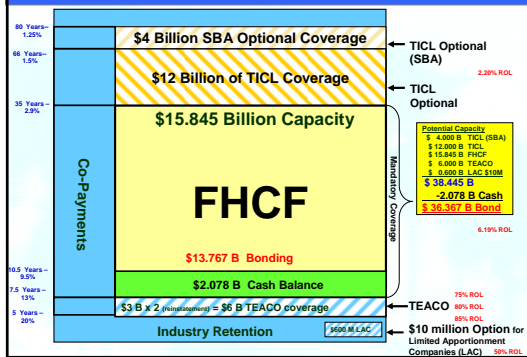
### Basic Structure of the FHCF



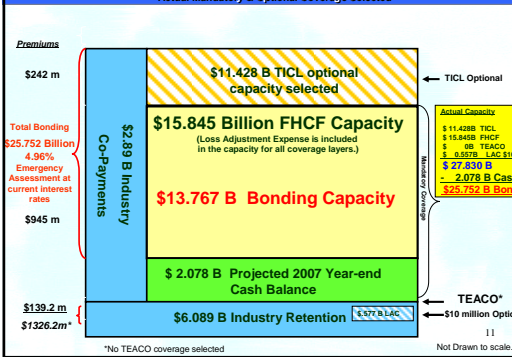
### Initial Season Capacity for the 2007 Hurricane Season Mandatory Coverage



### FHCF Optional Coverages



### Initial Season Capacity Actual Mandatory & Optional Coverage Selected



### Questions Discussion & Comments

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